FORM 10−Q

QWEST COMMUNICATIONS INTERNATIONAL INC − Q

Filed: November 01, 2005 (period: September 30, 2005)

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10−Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 001−15577

Qwest Communications International Inc.
(Exact name of registrant as specified in its charter)

Delaware	**84−1339282**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1801 California Street, Denver, Colorado	**80202**
(Address of principal executive offices)	**(Zip Code)**

(303) 992−1400
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b−2 of the Exchange Act). Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b−2 of the Exchange Act). Yes ☐ No ☒

On October 28, 2005, 1,859,995,238 shares of common stock were outstanding.

QWEST COMMUNICATIONS INTERNATIONAL INC.

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GLOSSARY OF TERMS

Our industry uses many terms and acronyms that may not be familiar to you. To assist you in reading this document, we have provided below definitions of some of these terms.

- *Access Lines.* Telephone lines reaching from the customer's premises to a connection with the public switched telephone network. When we refer to our access lines we mean all our mass markets, wholesale and business access lines, including those used by us and our affiliates.

- *Asynchronous Transfer Mode (ATM).* A broadband, network transport service that provides a fast, efficient way to move large quantities of information.

- *Bell Operating Company (BOC).* As defined in the Telecommunications Act of 1996, the term includes our subsidiary, Qwest Corporation, as the successor to U S WEST Communications, Inc. Under the Telecommunications Act of 1996, "Bell Operating Company" also would include any successor or assign of Qwest Corporation that provides wireline telephone exchange service.

- *Competitive Local Exchange Carriers (CLECs).* Telecommunications providers that compete with us in providing local voice services in our local service area.

- *Customer Premises Equipment (CPE).* Telecommunications equipment sold to a customer, usually in connection with our providing telecommunications services to that customer.

- *Dedicated Internet Access (DIA).* Internet access ranging from 128 kilobits per second to 2.4 gigabits per second.

- *Digital Subscriber Line (DSL).* A technology for providing high−speed data communications over telephone lines.

- *Frame Relay.* A high speed switching technology, primarily used to interconnect multiple local networks.

- *Incumbent Local Exchange Carrier (ILEC).* A traditional telecommunications provider, such as our subsidiary, Qwest Corporation, that, prior to the Telecommunications Act of 1996, had the exclusive right and responsibility for providing local telecommunications services in its local service area.

- *Integrated Services Digital Network (ISDN).* A telecommunications standard that uses digital transmission technology to support voice, video and data communications applications over regular telephone lines.

- *Interexchange Carriers (IXCs).* Telecommunications providers that provide long−distance services to end−users by handling calls that are made from a phone exchange in one LATA to an exchange in another LATA or between exchanges within a LATA.

- *InterLATA long−distance services.* Telecommunications services, including "800" services, that cross LATA boundaries.

- *Internet Dial Access.* Provides ISPs and business customers with a comprehensive, reliable and cost−effective dial−up network infrastructure.

- *Internet Protocol (IP).* A protocol for transferring information across the Internet in packets of data.

- *Internet Service Providers (ISPs).* Businesses that provide Internet access to retail customers.

- *IntraLATA long−distance services.* These services include calls that terminate outside a caller's local calling area but within their LATA, including wide area telecommunications service or "800" services for customers with geographically highly concentrated demand.

- *Local Access Transport Area (LATA).* A geographical area in which telecommunications providers may offer services. There are 163 LATAs in the United States and 27 in our local service area.

- *Local Calling Area.* A geographical area, usually smaller than a LATA, within which a customer can make telephone calls without incurring long−distance charges. Multiple local calling areas generally make up a LATA.

- *Private Lines.* Direct circuits or channels specifically dedicated to the use of an end−user organization for the purpose of directly connecting two or more sites.

- *Public Switched Telephone Network (PSTN).* The worldwide voice telephone network that is accessible to every person with a telephone and a dial tone.

- *Unbundled Network Elements (UNEs) Platform (UNE−P).* Discrete elements of our network that are sold or leased to competitive telecommunications providers and that may be combined to provide their retail telecommunications services.

- *Virtual Private Network (VPN).* A private network that operates securely within a public network (such as the Internet) by means of encrypting transmissions.

- *Voice over Internet Protocol (VoIP).* An application that provides real−time, two−way voice capability originating in the Internet protocol over a broadband connection.

- *Web Hosting.* The providing of space, power and bandwidth in data centers for hosting of customers' Internet equipment.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS, SHARES IN THOUSANDS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Operating revenue	$ 3,504	$ 3,449	$ 10,423	$ 10,372
Operating expenses:				
Cost of sales (exclusive of depreciation and amortization)	1,512	1,548	4,385	4,489
Selling, general and administrative	1,016	1,261	3,097	3,899
Depreciation	659	659	1,961	1,974
Amortization of capitalized software and other intangible assets	109	120	346	367
Asset impairment charges	—	34	—	77
Total operating expenses	3,296	3,622	9,789	10,806
Operating income (loss)	208	(173)	634	(434)
Other expense (income):				
Interest expense—net	384	374	1,145	1,164
(Gain) loss on early retirement of debt—net	(11)	6	32	1
Gain on sale of assets—net	—	—	(257)	—
Other (income) expense —net	(20)	34	(35)	(59)
Total other expense—net	353	414	885	1,106
Loss before income taxes	(145)	(587)	(251)	(1,540)
Income tax benefit (expense)	1	18	—	(115)
Net loss	$ (144)	$ (569)	$ (251)	$ (1,655)
Basic and diluted loss per share	$ (0.08)	$ (0.31)	$ (0.14)	$ (0.92)
Basic and diluted weighted average shares outstanding	1,843,715	1,815,109	1,827,937	1,796,560

The accompanying notes are an integral part of these condensed consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS, SHARES IN THOUSANDS)
(UNAUDITED)

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,311	$ 1,151
Short−term investments	580	764
Accounts receivable (less allowance for doubtful accounts of $172 and $178, respectively)	1,595	1,594
Prepaid and other assets	554	549
Assets held for sale	14	160
Total current assets	5,054	4,218
Property, plant and equipment—net	15,812	16,853
Capitalized software and other intangible assets—net	1,035	1,179
Prepaid pension asset	1,172	1,192
Other assets	654	882
Total assets	$ 23,727	$ 24,324
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current borrowings	$ 527	$ 596
Accounts payable	740	731
Accrued expenses and other current liabilities	2,330	2,290
Deferred revenue and advanced billings	635	669
Total current liabilities	4,232	4,286
Long−term borrowings (net of unamortized debt discount of $125 and $32, respectively)	16,702	16,690
Post−retirement and other post−employment benefit obligations	3,408	3,391
Deferred revenue	532	559
Other long−term liabilities	1,569	2,010
Total liabilities	26,443	26,936
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock—$1.00 par value, 200 million shares authorized; none issued and outstanding	—	—
Common stock—$0.01 par value, 5 billion shares authorized; 1,858,754 and 1,817,494 shares issued, respectively	19	18
Additional paid−in capital	43,260	43,111
Treasury stock—1,062 and 1,108 shares, respectively (including 62 and 168 shares, respectively, held in Rabbi Trust)	(17)	(20)
Accumulated deficit	(45,972)	(45,721)
Accumulated other comprehensive loss	(6)	—
Total stockholders' deficit	(2,716)	(2,612)
Total liabilities and stockholders' deficit	$ 23,727	$ 24,324

The accompanying notes are an integral part of these condensed consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS)
(UNAUDITED)

	Nine Months Ended September 30,	
	2005	**2004**
OPERATING ACTIVITIES		
Net loss	$ (251)	$(1,655)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,307	2,341
Provision for bad debts	137	145
Asset impairment charges	—	77
Deferred income taxes	(4)	5
Gain on sale of assets	(257)	—
Loss on early retirement of debt	32	1
Other non−cash charges—net	17	84
Changes in operating assets and liabilities:		
Accounts receivable	(138)	113
Prepaid and other current assets	1	57
Accounts payable and accrued expenses	57	317
Deferred revenue and advance billings	(61)	(219)
Other non−current assets and liabilities	(252)	343
Cash provided by operating activities	1,588	1,609
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,110)	(1,359)
Proceeds from sales of property, plant and equipment	418	15
Proceeds from sales of investment securities	1,230	1,164
Purchases of investment securities	(1,002)	(1,269)
Other	22	5
Cash used for investing activities	(442)	(1,444)
FINANCING ACTIVITIES		
Proceeds from long−term borrowings	1,887	2,334
Repayments of long−term borrowings, including current maturities	(1,778)	(2,482)
Proceeds from issuance of common and treasury stock	10	5
Debt issuance costs	(31)	(50)
Early retirement of debt costs	(74)	(24)
Cash provided by (used for) financing activities	14	(217)
CASH AND CASH EQUIVALENTS		
Increase (decrease) in cash and cash equivalents	1,160	(52)
Beginning balance	1,151	1,366
Ending balance	$ 2,311	$ 1,314

The accompanying notes are an integral part of these condensed consolidated financial statements.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

Unless the context requires otherwise, references in this report to "Qwest," "we," "us," the "Company" and "our" refer to Qwest Communications International Inc. and its consolidated subsidiaries and references in this report to "QCII" refer to Qwest Communications International Inc. on an unconsolidated, stand−alone basis.

Note 1: Basis of Presentation

These condensed consolidated interim financial statements are unaudited and are prepared in accordance with the instructions for Form 10−Q. In compliance with those instructions, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted.

In the opinion of management, these statements include all the adjustments necessary to fairly present our condensed consolidated results of operations, financial position and cash flows as of September 30, 2005 and for all periods presented. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our annual report on Form 10−K for the year ended December 31, 2004 (the "2004 Form 10−K"). The condensed consolidated results of operations for the three and nine month periods ended September 30, 2005 and the condensed consolidated statement of cash flows for the nine month period ended September 30, 2005 are not necessarily indicative of the results or cash flows expected for the full year.

As explained in our 2004 Form 10−K, we adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R") in the first quarter of 2004. Upon adoption of FIN 46R, we identified two relationships that may be subject to consolidation by us. Both relationships are with entities that provide Internet port access and services to their customers. We do not currently have sufficient information about the entities to complete our analysis under FIN 46R, even though we have continuously requested it. Until further information is available to us, we are unable to come to any conclusion regarding consolidation under FIN 46R.

Use of estimates

Our consolidated financial statements are prepared in accordance with GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions made when accounting for items and matters such as long−term contracts, customer retention patterns, allowance for bad debts, depreciation, amortization, asset valuations, internal labor capitalization rates, recoverability of assets, impairment assessments, employee benefits, taxes, reserves and other provisions and contingencies are reasonable, based on information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We also assess potential losses in relation to threatened or pending litigation and, if a loss is considered probable and the amount can be reasonably estimated, we recognize an expense for the estimated loss. Actual results could differ from these estimates. See Note 10—Commitments and Contingencies.

Depreciation and amortization

Property, plant and equipment are shown net of depreciation on our condensed consolidated balance sheet. As of September 30, 2005 and December 31, 2004, accumulated depreciation was $29.9 billion and $28.6 billion, respectively.

Capitalized software and other intangible assets are shown net of amortization on our condensed consolidated balance sheet. Accumulated amortization was 1.3 billion as of September 30, 2005 and December 31, 2004.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

Stock−based compensation

We account for our stock−based compensation arrangements under the intrinsic−value recognition and measurement principles of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.” Under the intrinsic−value method, no compensation expense is recognized for options granted to employees when the strike price of those options equals or exceeds the value of the underlying security on the measurement date. Any excess of the stock price on the measurement date over the exercise price is recorded as deferred compensation and amortized over the service period during which the stock option award vests using the accelerated method described in FIN No. 28, “Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.”

Had compensation cost for our stock−based compensation plans been determined under the fair−value method in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock−Based Compensation,” our net loss and basic and diluted loss per share would have been changed to the pro forma amounts indicated below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions, except per share amounts)			
Net loss:				
As reported	$ (144)	$ (569)	$ (251)	$ (1,655)
Deduct: Total stock−based employee compensation expense determined under the fair−value−based method for all awards, net of related tax effects of $0	(134)	(15)	(168)	(43)
Pro forma net loss	$ (278)	$ (584)	$ (419)	$ (1,698)
Net loss per share:				
As reported—basic and diluted	$(0.08)	$ (0.31)	$(0.14)	$ (0.92)
Pro forma—basic and diluted	$(0.15)	$ (0.32)	$(0.23)	$ (0.95)

The pro forma amounts reflected above may not be representative of the effects on our reported net income or loss in future years because the number of future shares to be issued under these plans is not known and the assumptions used to determine the fair value can vary significantly. See “Recently issued accounting pronouncements” below for further discussion of SFAS No. 123R, “Share Based Payments” (“SFAS No. 123R”).

On August 18, 2005, the Compensation and Human Resources Committee of our Board of Directors accelerated the vesting of all outstanding and unvested stock options that have an exercise price equal to or greater than $3.79, which was the closing market price of Qwest’s common stock on such date. As a result of the acceleration, 50.4 million stock options, of which 10.5 million stock options were held by our executive officers, became exercisable on August 18, 2005. Aside from the acceleration of the vesting date, the terms and conditions of the stock option agreements governing the underlying stock options remain unchanged.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

The purpose of the acceleration was to avoid recognizing future compensation expense associated with the accelerated options upon the adoption of SFAS No. 123R. SFAS No. 123R sets forth accounting requirements for "share−based" compensation to employees and requires companies to recognize in their income statements the grant−date fair value of stock options and other equity−based compensation. We estimate that future compensation expense will be reduced by approximately $80 million over the remaining vesting period of the options as a result of the acceleration.

Earnings per share

The weighted average number of shares used for computing basic and diluted loss per share for the three months ended September 30, 2005 and 2004 was 1,844 million and 1,815 million, respectively, and for the nine months ended September 30, 2005 and 2004 was 1,828 million and 1,797 million, respectively. For these same periods, the effects of approximately 142 million and 131 million of outstanding stock options, respectively, were excluded from the calculation of diluted loss per share because the effect was anti−dilutive.

Reclassifications

We have reclassified our investments in auction rate securities of $619 million as of December 31, 2004 from cash and cash equivalents into short−term investments in our condensed consolidated balance sheets. We invest in auction rate securities as part of our cash management strategy. These investments are highly liquid, variable−rate debt securities. While the underlying security typically has a stated maturity of 20 to 30 years, the interest rate is reset through dutch auctions that are typically held every 7, 28 or 35 days, creating a highly liquid, short−term instrument. The securities trade at par and are callable at par on any interest payment date at the option of the issuer. Interest is paid at the end of each auction period. We have reclassified the purchases and sales of these auction rate securities in our condensed consolidated statements of cash flows, increasing cash used for investing activities by $105 million from $1,339 million to $1,444 million for the nine months ended September 30, 2004. This reclassification has no impact on previously reported total current assets, total assets, working capital position, results of operations or debt covenants and does not affect previously reported cash flows from operating or financing activities.

Other short−term investments of $145 million as of December 31, 2004 have also been reclassified to short−term investments from prepaid and other assets.

Certain other prior period balances have been reclassified to conform to the current presentation.

Recently adopted accounting pronouncements

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non−Monetary Assets," which we have adopted starting July 1, 2005. Prior to the adoption of SFAS No. 153, we were required to measure the value of certain assets exchanged in non−monetary transactions by using the net book value of the asset relinquished. Under SFAS No. 153, we now measure assets exchanged at fair value, as long as the transaction has commercial substance and the fair value of the assets exchanged is determinable within reasonable limits. A non−monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS No. 153 has not had a material effect on our financial position or results of operations for the three months ended September 30, 2005.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

Recently issued accounting pronouncements

In May 2005, the FASB, as part of an effort to conform to international accounting standards, issued SFAS No. 154, "Accounting Changes and Error Corrections," which is effective for us beginning on January 1, 2006. SFAS No. 154 requires that all voluntary changes in accounting principles are retrospectively applied to prior financial statements as if that principle had always been used, unless it is impracticable to do so. When it is impracticable to calculate the effects on all prior periods, SFAS No. 154 requires that the new principle be applied to the earliest period practicable. The adoption of SFAS No. 154 is not anticipated to have a material effect on our financial position or results of operations.

In April 2005, the Securities and Exchange Commission ("SEC") delayed the effective date of SFAS No. 123R. SFAS No. 123R will now be effective for us as of the interim reporting period beginning January 1, 2006. SFAS No. 123R requires that compensation cost relating to share−based payment transactions be recognized in the financial statements based on the fair value of the equity or liability instruments issued. SFAS No. 123R covers a wide range of share−based compensation arrangements including share options, restricted share plans, performance−based awards, share appreciation rights and employee share purchase plans. We do not anticipate that the adoption of SFAS No. 123R will have a material impact on our financial position or results of operations.

In March 2005, the FASB issued FIN No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 will be effective for us on December 31, 2005 and requires us to recognize asset retirement obligations that are conditional on a future event, such as the obligation to safely dispose of asbestos when a building is remodeled. Uncertainty about the timing or settlement of the obligation is factored into the measurement of the liability. We are in the process of quantifying the impact FIN 47 will have on our financial position and results of operations.

Note 2: Assets Held for Sale

On July 1, 2004, we entered into an agreement with Verizon Wireless ("Verizon") under which it agreed to acquire all of our personal communications services, or PCS, licenses and substantially all of our related wireless network assets in our local service area (including cell sites and wireless network infrastructure, site leases, and associated network equipment). This sale closed in the first quarter of 2005, and Verizon paid us $418 million to purchase these assets. As of December 31, 2004, $160 million of assets were classified as held for sale. During the first quarter of 2005, we recorded a gain of $257 million from this sale, and other dispositions of wireless assets.

Note 3: Asset Impairment Charges

In the third quarter of 2004, pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long−Lived Assets", we recorded impairment charges of $26 million related to network supplies held for sale and $8 million for hosting assets sold. In addition, we recorded impairment charges during the second quarter of 2004 related to our pay phone business and network supplies held for sale in the aggregate amount of $19 million and $24 million, respectively.

QWEST COMMUNICATIONS INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

Note 4: Borrowings

As of September 30, 2005 and December 31, 2004, our borrowings, net of discounts and premiums, consisted of the following:

	September 30, 2005	December 31, 2004
	(Dollars in millions)	
Current borrowings:		
Current portion of long−term borrowings	$ 511	$ 584
Current portion of capital lease obligations and other	16	12
Total current borrowings	$ 527	$ 596
Long−term borrowings:		
Long−term notes	$16,604	$ 16,609
Long−term capital lease obligations and other	98	81
Total long−term borrowings	$16,702	$ 16,690

Borrowing Activity

In June 2005, we issued a total of $1.95 billion (face value) of new debt, as described below.

On June 17, 2005, QCII's wholly owned subsidiary, Qwest Corporation ("QC"), issued a total of $1.15 billion in notes, which consisted of $750 million of Floating Rate Notes due 2013 with interest at LIBOR plus 3.25% (7.14% as of September 30, 2005) and $400 million of 7.625% Notes due 2015. The notes are unsecured general obligations and rank equally with all of QC's other unsecured and unsubordinated indebtedness. The covenant and default terms are substantially the same as those associated with QC's other long−term debt. QC plans to file an exchange offer registration statement for a new issue of substantially identical notes within 315 calendar days of the date of issuance of the notes. If the exchange offer registration statement does not become effective within 315 calendar days of the issuance of the notes or the exchange offer is not consummated within 45 days of the registration statement's effectiveness date, the rate at which interest accrues will increase by 0.25% per annum. The aggregate net proceeds of approximately $1.13 billion from the issuances have been or will be used to fund our investments in telecommunication assets, repay indebtedness and, to a limited extent, for other general corporate purposes.

Also on June 17, 2005, QCII issued $600 million aggregate principal amount of 7 1/2% Senior Notes due 2014—Series B. These notes are guaranteed by QCII's wholly owned subsidiaries, Qwest Capital Funding, Inc. ("QCF") and Qwest Services Corporation ("QSC"). The guarantee by QCF is on a senior unsecured basis, and the guarantee by QSC is on a senior subordinated secured basis. The QSC guarantee is secured by a junior lien on certain assets of QSC, including the stock of QC and all debt owed to QSC. This collateral also secures other obligations of QSC, but the lien securing the QSC guarantee is (1) junior to the lien securing senior debt secured by the collateral, including the three−year, $750 million, revolving credit facility established by QSC in 2004 (which was cancelled and replaced with a similar, five−year, $850 million, revolving credit facility in October 2005), (2) equal in seniority to the lien securing QCII's Floating Rate Senior Notes due 2009, 7 1/4% Senior Notes due 2011, and 7 1/2% Senior Notes due 2014 (the "2009, 2011 and 2014 QCII Notes"), and (3) senior to the lien securing QSC's 13.00% Senior Subordinated Secured Notes due 2007, 13.50% Senior Subordinated Secured Notes due 2010 and 14.00% Senior Subordinated Secured Notes due 2014 (the "2007, 2010 and 2014 QSC Notes"), and certain other obligations. Upon the release of the liens securing the 2007, 2010 and 2014 QSC Notes and certain other

obligations, subject to certain conditions, the collateral will be released and the subordinated provisions will terminate such that the 2009, 2011 and 2014 QCII Notes will be guaranteed on a senior unsecured basis by QSC. The covenant and default terms of these notes include but are not limited to: (i) limitations on incurrence of indebtedness; (ii) limitations on restricted payments; (iii) limitations on dividends and loans and other payment restrictions; (iv) limitations on asset sales or transfers; (v) limitations on transactions with affiliates; (vi) limitations on liens; (vii) limitations on mergers and consolidation and (viii) limitations on business activities. If any series of the notes receive investment grade ratings, most of the covenants with respect to any series of the notes will be subject to suspension or termination. Under the indenture governing the notes, we must repurchase the notes upon certain changes of control. This indenture also contains provisions for cross acceleration relating to any of our other debt obligations and the debt obligations of our restricted subsidiaries in the aggregate in excess of $100 million. QCII plans to file an exchange offer registration statement for a new issue of substantially identical notes within 315 calendar days of the date of issuance of the notes. If the exchange offer registration statement does not become effective within 315 calendar days of the issuance of the notes or the exchange offer is not consummated within 45 days of the registration statement's effectiveness date, the rate at which interest accrues will increase by 0.25% per annum. The net proceeds of approximately $540 million from the issuance have been or will be used to fund our investments in telecommunication assets, repay indebtedness and, to a limited extent, for other general corporate purposes.

On June 23, 2005, QCII issued an additional $200 million aggregate principal amount of its 7 1/2% Senior Notes due 2014—Series B, bringing the total principal amount outstanding of such series to $800 million. The net proceeds of approximately $180 million from the issuance of the additional notes have been or will be used to fund our investments in telecommunication assets, repay indebtedness and, to a limited extent, for other general corporate purposes.

Repayment Activity

On June 7, 2005, we commenced cash tender offers for the purchase of up to $250 million of aggregate principal amount of QC's 6 5/8% Notes due 2005 (the "QC 6 5/8% Notes"), up to $150 million aggregate principal amount of QC's 6 1/8% Notes due November 15, 2005 (the "QC 6 1/8% Notes"), and up to $504 million aggregate principal amount of QSC's 13.00% Senior Subordinated Secured Notes due 2007 (the "13.00% QSC Notes"). We received and accepted tenders of approximately $211 million face amount of the QC 6 5/8% Notes for $216 million, including accrued interest of $4 million, approximately $129 million face amount of the QC 6 1/8% Notes for $131 million, including accrued interest of $1 million, and approximately $452 million face amount of 13.00% QSC Notes for $501 million, including accrued interest of $1 million. On June 20 and June 23, 2005, QC pre−paid an aggregate of $750 million face amount of the $1.25 billion floating rate tranche of its senior term loan that matures in June 2007 for $775 million, including accrued interest of $2 million. These transactions resulted in a loss of $55 million due to tender premiums that ranged from 0.680% to 10.762%.

On July 15, 2005, we paid the remaining $179 million of QCF's 6 1/4% Notes due July 15, 2005 that matured on that date.

On September 15, 2005, we paid the remaining $39 million of the QC 6 5/8% Notes that matured on that date.

Exchange Activity

During the three and nine months ended September 30, 2005, we exchanged approximately $97 million and $167 million of existing QCF notes plus $1 million and $2 million of accrued interest, respectively, for

approximately 22 million and 38 million shares of our common stock with an aggregate value at the time of issuance of $86 million and $145 million, respectively. The effective share price for the exchange transactions ranged from $4.03 per share to $4.98 per share (principal and accrued interest divided by the number of shares issued). The trading prices for our shares at the time the exchange transactions were consummated ranged from $3.53 per share to $4.09 per share. As a result, we recorded a gain of $11 million and $22 million, respectively, on debt extinguishments during the three and nine month periods ended September 30, 2005. These gains are included in (gain) loss on early retirement of debt—net in our condensed consolidated statements of operations. During the three and nine months ended September 30, 2004, we recorded gains of $0 million and $25 million for similar exchanges.

On May 11, 2005, we commenced registered exchange offers for the 2009, 2011 and 2014 QCII Notes, and QSC's 13.50% Senior Subordinated Secured Notes due 2010 and 14.00% Senior Subordinated Secured Notes due 2014 (the "2010 and 2014 QSC Notes") pursuant to the registration rights agreements that we entered into in connection with the issuance of these outstanding notes. The terms of the registered 2009, 2011 and 2014 QCII Notes and the registered 2010 and 2014 QSC Notes issued in the exchange offers are substantially identical to the terms of the outstanding 2009, 2011 and 2014 QCII Notes and 2010 and 2014 QSC Notes, respectively, except that the transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes do not apply to the registered notes. We completed the registered exchange offers for the 2009, 2011 and 2014 QCII Notes and for the 2010 and 2014 QSC Notes on June 16, 2005 and on June 17, 2005, respectively.

On May 27, 2005, QC commenced registered exchange offers for its 7.875% Notes due 2011 (the "2011 QC Notes") and its 8 $^{7}/_{8}$% Notes due 2012 (the "2012 QC Notes") pursuant to the registration rights agreements that QC entered into in connection with the issuance of these outstanding notes. The terms of the registered 2011 QC Notes and 2012 QC Notes issued in the exchange offers are substantially identical to the terms of the outstanding 2011 QC Notes and 2012 QC Notes, respectively, except that the transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes do not apply to the registered notes. QC completed the registered exchange offers for the 2011 QC Notes and 2012 QC Notes on July 5, 2005.

Interest Rate Swap Activity

In 2004 we entered into interest rate swap agreements with notional principal amounts totaling $825 million. We previously disclosed that all these interest rate swap agreements were designated as fair−value hedges, which effectively converted the related fixed−rate debt to floating rate through the receipt of fixed−rate amounts in exchange for floating−rate interest payments. While the structure of the swaps did not change, we determined in the quarter ended March 31, 2005 that agreements with notional amounts totaling $575 million did not meet all the requirements to be treated as fair−value hedges. As a result of this change, the changes in the fair value of the swap agreements were included in other expense—net in our condensed consolidated statements of operations. Had we applied this same accounting treatment to the swap agreements in 2004, the impact would have been less than $1 million in our 2004 financial statements.

In the quarter ended June 30, 2005, we terminated all of these interest rate swap agreements. We paid $3 million to terminate the agreements that were not treated as fair−value hedges, and we received $6 million from the termination of the interest rate swap agreement that was treated as a fair−value hedge. For the agreements that were not treated as fair−value hedges the changes in fair value prior to termination resulted in a net $3 million non−operating loss for the nine months ended September 30, 2005, which amount is included in other expense—net in our condensed consolidated statements of operations. For the interest rate swap agreement that was treated as a fair−value hedge, we are amortizing the $6 million of proceeds as a reduction in interest expense over the remaining six years until the hedged notes mature.

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Note 5: Restructuring Charges

The restructuring reserve balances discussed below are included in our condensed consolidated balance sheets in accrued expenses and other current liabilities for the current portion and other long−term liabilities for the long−term portion. As of September 30, 2005 and December 31, 2004, the amounts included as current liabilities were $81 million and $146 million, respectively, and the long−term portions were $345 million and $374 million, respectively.

An analysis of activity associated with the existing restructuring reserves for the nine months ended September 30, 2005 is as follows:

	2004 Restructuring Plan	2003 and Prior Restructuring Plans	Totals
		(Dollars in millions)	
Balance at December 31, 2004	$ 78	$ 442	$ 520
Provisions	—	1	1
Utilizations	(50)	(36)	(86)
Reversals	—	(9)	(9)
Balance at September 30, 2005	$ 28	$ 398	$ 426

As of September 30, 2005, 3,900 of the 4,000 planned employee reductions associated with the 2004 restructuring plan had been completed, and an additional $50 million of the restructuring reserve had been used for severance payments during the nine months ended September 30, 2005. In accordance with our severance plan, the majority of the remaining severance payments are expected to occur over the next nine months.

As part of the 2003 and prior restructuring plans, we permanently abandoned 104 leased facilities and planned employee reductions of 2,240. In relation to these plans we recorded a charge in our condensed consolidated statement of operations. The abandonment costs include rental payments due over the remaining terms of the leases, net of estimated sublease rentals, and estimated costs to terminate the leases. Also in 2001 we suspended our plans to build web hosting centers where construction had not begun and halted work on those sites that were under construction. We identified 10 web−hosting centers that would be permanently abandoned. We expect to sublease the majority of the non−operational web hosting centers at rates less than our lease rates for the facilities. Certain of these leases are for terms of up to 20 years. For the nine months ended September 30, 2005, we utilized $35 million of the established reserve primarily for payments of amounts due under the leases. We expect the balance of the reserve to be utilized over the remaining terms of the leases or sooner if market conditions enable transactions to exit the remaining lease obligations. All of the 2,240 planned employee reductions under the 2003 restructuring plan are complete, and we anticipate using the balance of the 2003 and prior reserve balances primarily for on−going outplacement services and remaining lease payments provided by the plans.

Note 6: Employee Benefits

We have a noncontributory defined benefit pension plan (the “Pension Plan”) for substantially all management (non−union) and occupational (union) employees. In addition to the qualified Pension Plan we also maintain a non−qualified pension plan (the “Non−Qualified Pension Plan”) for certain highly compensated employees and executives. We maintain post−retirement benefit plans that provide medical, dental, and a life insurance benefit for eligible management and non−management retirees. We also provide post−employment benefits for other eligible former employees.

The accumulated post−retirement benefit obligation ("ABO") for our non−management post−retirement plan benefits is estimated based on the terms of our written plan as negotiated with our employees' unions as well as numerous assumptions, estimates and judgments, including but not limited to, healthcare cost trend rates and mortality trend rates. In the third quarter of 2005, we negotiated new three−year collective bargaining agreements covering approximately 25,000 unionized employees. These new agreements reflect changes for the occupational post−1990 retirees, including: (i) retirees will begin contributing to the cost of healthcare benefits in excess of specified limits on the company−funded portion of retiree healthcare costs (also referred to as "caps") beginning January 1, 2009, rather than January 1, 2006, the previous effective date of the caps; (ii) retirees will receive a reduced life insurance benefit; and (iii) retirees will pay increased out of pocket costs through plan design changes. These changes have been considered in the determination of the ABO for our non−management employee benefits under the plan. The additional costs to us of deferring the enforcement of the caps by three years were substantially offset in negotiation by the additional benefit to us of the reduction in life insurance benefits. As a result of this exchange of benefits with the affected plan participants (the retirees in this case), we have determined that the caps provision beginning January 1, 2009 is substantive. If the caps were not considered to be substantive in our determination of the ABO, our current calculation of the ABO would increase by approximately $2.3 billion. The impact of the above amendments to the substantive plan will be amortized to our net periodic benefit cost over the three year term of the collective bargaining agreements. We currently intend to enforce the healthcare caps beginning on January 1, 2009 in order to maintain our healthcare costs at competitive levels.

The terms of our separate post−retirement life and healthcare arrangement with our post−1990 management, non−union employees are established by us and are subject to change at our discretion. We have a past practice of sharing some of the cost of providing healthcare benefits with our management employees. The ABO for the management post−retirement healthcare benefits is based on the terms of the current written plan documents and is adjusted for anticipated continued cost sharing with management employees.

Pension and post−retirement healthcare and life insurance benefits earned by employees during the year, as well as interest on projected benefit obligations, are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits, except as otherwise noted. Pension and post−retirement costs are recognized over the period in which the employee renders services and becomes eligible to receive benefits as determined using the projected unit credit method.

The components of the net pension expense are pension cost (credit), non−qualified pension benefit cost and post−retirement benefit cost as follows:

	Pension Cost (Credit)		Non−Qualified Pension Cost		Post−retirement Benefit Cost	
	Three Months Ended September 30,					
	2005	2004	2005	2004	2005	2004
	(Dollars in millions)					
Service cost	$ 34	$ 41	$ 1	$ 1	$ 5	$ 5
Interest cost	124	142	—	1	71	81
Expected return on plan assets	(173)	(193)	—	—	(33)	(33)
Amortization of transition asset	—	(16)	1	—	—	—
Amortization of prior service cost	(1)	(1)	—	—	(14)	(6)
Recognized net actuarial loss	26	1	1	—	3	6
Net cost (credit) included in net loss	$ 10	$ (26)	$ 3	$ 2	$ 32	$ 53

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	Pension Cost (Credit)		Non−Qualified Pension Cost		Post−retirement Benefit Cost	
	Nine Months Ended September 30,					
	2005	2004	2005	2004	2005	2004
	(Dollars in millions)					
Service cost	$ 112	$ 123	$ 2	$ 3	$ 15	$ 15
Interest cost	375	426	2	3	232	265
Expected return on plan assets	(522)	(580)	—	—	(98)	(99)
Amortization of transition asset	—	(48)	2	1	—	—
Amortization of prior service cost	(4)	(4)	—	—	(42)	(18)
Recognized net actuarial loss	60	5	1	—	43	52
Net cost (credit) included in net loss	$ 21	$ (78)	$ 7	$ 7	$ 150	$ 215

The net pension cost is allocated between cost of sales and selling, general and administrative expense in our condensed consolidated statements of operations. The measurement date used to determine pension and other post−retirement benefit measures for the pension plan and the post−retirement benefit plan is December 31.

Note 7: Income Tax Provision

We are currently generating net operating loss carryforwards for tax purposes and have not recognized any net tax benefits associated with the losses because generation of sufficient taxable income to realize the benefits is not considered more likely than not. We also recognize a tax provision for changes in our estimated liability for uncertain tax positions. In the second quarter of 2004, we recorded income tax expense of $136 million primarily related to a change in the expected timing of deductions related to a tax strategy, referred to as Contested Liability Acceleration Strategy (“CLAS”).

Note 8: Segment Information

Our three segments are (1) wireline services, (2) wireless services and (3) other services. Our chief operating decision maker (“CODM”) regularly reviews the results of operations at the segment level to evaluate the performance of each segment and allocate capital resources based on segment income.

Segment income consists of each segment’s revenue and direct expenses. Segment revenue is based on the types of products and services offered as described below. Segment expenses include employee−related costs, facility costs, network expenses and non−employee related costs such as customer support, collections and marketing. We centrally manage indirect administrative services costs such as finance, information technology, real estate and legal; consequently, these costs are allocated to the other services segment. We evaluate depreciation, amortization, interest expense, interest income and other income (expense) on a total company basis. As a result, these charges are not allocated to any segment. Similarly, we do not include impairment charges in the segment results.

- *Wireline services.* The wireline services segment utilizes our traditional telephone and fiber optic broadband networks to provide voice services and data and Internet services to mass markets (which includes consumer and small business customers), business and wholesale customers. Our wireline services include:

  - *Voice services.* Voice services revenue includes local voice services, long−distance voice services and access services. Local voice services revenue includes revenue from basic local exchange

services, switching services, custom calling features, enhanced voice services, operator services, collocation services and related equipment. Long−distance voice services revenue includes revenue from InterLATA and IntraLATA long−distance services. Access services revenue includes fees charged to other long−distance providers to connect to our network.

- *Data and Internet services.* Data and Internet services revenue includes data services (such as traditional private lines, wholesale private lines, frame relay, ATM and related equipment) and Internet services (such as DSL, DIA, VPN, Internet dial access, video, web hosting, professional services and related equipment).

- *Wireless services.* We offer wireless services and equipment to residential and business customers, providing them the ability to use the same telephone number for their wireless phone as for their home or business phone. In August 2003, we entered into a services agreement with a third party provider that allows us to resell wireless services, including access to its nationwide PCS wireless network, to mass markets and business customers, primarily within our local service area states. We began offering these services under our brand name in March 2004 and now provide the services through the third party provider's network.

- *Other services.* Other services revenue is predominantly derived from the sublease of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties. Our other services segment expenses include unallocated corporate expenses for functions such as finance, information technology, legal, marketing services and human resources, which we centrally manage.

Other than as already described herein, the accounting principles used are the same as those used in our condensed consolidated financial statements. The revenue shown below for each segment is derived from transactions with external customers. Internally, we do not separately track the total assets of our wireline services or other services segments. As such, total asset information for the three segments shown below is not presented. Also, prior to the fourth quarter of 2004, we excluded restructuring expenses from segment income. However, restructuring expenses are now included in the segment information for all periods.

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Segment information for the three and nine months ended September 30, 2005 and 2004 is summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Operating revenue:				
Wireline services	$3,363	$ 3,308	$10,008	$ 9,956
Wireless services	129	132	383	386
Other services	12	9	32	30
Total operating revenue	$3,504	$ 3,449	$10,423	$10,372
Operating expenses:				
Wireline services	$1,678	$ 1,754	$ 4,943	$ 5,356
Wireless services	137	147	446	328
Other services	713	908	2,093	2,704
Total segment operating expenses	$2,528	$ 2,809	$ 7,482	$ 8,388
Segment income (loss):				
Wireline services	$1,685	$ 1,554	$ 5,065	$ 4,600
Wireless services	(8)	(15)	(63)	58
Other services	(701)	(899)	(2,061)	(2,674)
Total segment income	$ 976	$ 640	$ 2,941	$ 1,984
Capital expenditures:				
Wireline services	$ 345	$ 326	$ 853	$ 1,086
Wireless services	—	2	2	3
Other services	100	90	255	270
Total capital expenditures	$ 445	$ 418	$ 1,110	$ 1,359

The following table reconciles segment income to net loss for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Segment income	$ 976	$ 640	$ 2,941	$ 1,984
Depreciation	(659)	(659)	(1,961)	(1,974)
Capitalized software and other intangibles amortization	(109)	(120)	(346)	(367)
Asset impairment charges	—	(34)	—	(77)
Total other expense—net	(353)	(414)	(885)	(1,106)
Income tax benefit (expense)	1	18	—	(115)
Net loss	$(144)	$ (569)	$ (251)	$ (1,655)

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Set forth below is revenue information for the three and nine months ended September 30, 2005 and 2004 for revenue derived from external customers for our products and services:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Operating revenue:				
Local voice	$1,577	$ 1,647	$ 4,792	$ 5,029
Long−distance	559	549	1,664	1,542
Access	159	168	501	526
Total voice services	2,295	2,364	6,957	7,097
Data and Internet services	1,068	944	3,051	2,859
Total wireline services segment revenue	3,363	3,308	10,008	9,956
Wireless services segment revenue	129	132	383	386
Other services revenue	12	9	32	30
Total operating revenue	$3,504	$ 3,449	$10,423	$10,372

We provide a variety of telecommunications services on a national and international basis to global and national businesses (including other telecommunications providers and information service providers), small businesses, governmental agencies and residential customers. It is impractical for us to provide revenue information about geographic areas.

We do not have any single major customer that provides more than ten percent of the total of our revenue derived from external customers.

Note 9: Non−Cash Activities

Supplemental disclosures of non−cash investing and financing activities are as follows:

	Nine Months Ended September 30,	
	2005	2004
	(Dollars in millions)	
Retirement of debt in exchange for common stock	$145	$ 144
Assets acquired through capital leases	31	9

Note 10: Commitments and Contingencies

Throughout this note, when we refer to a class action as “putative” it is because a class has been alleged, but not certified in that matter. Until and unless a class has been certified by the court, it has not been established that the named plaintiffs represent the class of plaintiffs they purport to represent. To the extent appropriate, we have provided reserves for each of the matters described below.

DOJ Investigation and Securities Actions

The Department of Justice (“DOJ”) investigation and the securities actions described below present material and significant risks to us. The size, scope and nature of the restatements of our consolidated financial statements

for 2001 and 2000, which are described in our previously issued consolidated financial statements for the year ended December 31, 2002 (the "2002 Financial Statements"), affect the risks presented by this investigation and these actions, as these matters involve, among other things, our prior accounting practices and related disclosures. Plaintiffs in certain of the securities actions have alleged our restatement of items in support of their claims. We can give no assurance as to the impacts on our financial results or financial condition that may ultimately result from all of these matters. During 2003 and 2004, we recorded reserves in our financial statements totaling $750 million in connection with these matters. On October 21, 2004, we entered into a settlement with the SEC concluding a formal investigation concerning our accounting and disclosures, among other subjects, that began in April 2002. The $750 million reserve was reduced by $125 million in December 2004 as a result of a payment in that amount in connection with our SEC settlement. The remaining reserve amount represents a final payment to be made in connection with the SEC settlement in the amount of $125 million, $400 million that we expect to pay to settle the consolidated securities action, as described below (offset by a $10 million payment to us from Arthur Andersen LLP, as described below), and the minimum estimated amount of loss we believe is probable with respect to the other securities actions described below.

We have recorded our estimate of the minimum liability of the remaining matters because no estimate of probable loss for these matters is a better estimate than any other amount. If the recorded reserve that will remain after we have paid the amount owed under the SEC settlement and the settlement of the consolidated securities action is insufficient to cover these other matters, we will need to record additional charges to our statement of operations in future periods. Additionally, we are unable at this time to provide a reasonable estimate of the upper end of the range of loss associated with these remaining matters due to their complex nature and current status, and, as a result, the amount we have reserved for these matters is our estimate of the lowest end of the possible range of loss. The ultimate outcomes of these matters are still uncertain and there is a significant possibility that the amount of loss we may ultimately incur could be substantially more than the reserve we have provided.

We believe that it is probable that a portion of the recorded reserve for the securities actions will be recoverable from a portion of the insurance proceeds that were placed in a trust to cover our losses and the losses of individual insureds following our November 12, 2003 settlement of disputes with certain of our insurance carriers related to, among other things, the DOJ investigation and securities actions described below. The insurance proceeds are subject to claims by us and other insureds for, among other things, the costs of defending certain matters and, as a result, such proceeds are being depleted over time. In any event, the terms and conditions of applicable bylaws, certificates or articles of incorporation, agreements or applicable law may obligate us to indemnify our current and former directors, officers and employees with respect to certain liabilities, and we have been advancing legal fees and costs to many current and former directors, officers and employees in connection with the DOJ investigation, securities actions and certain other matters.

Other than the consolidated securities action which is the subject of a memorandum of understanding regarding settlement as described below, we continue to defend against the remaining securities actions vigorously and are currently unable to provide any estimate as to the timing of the resolution of these remaining actions. Any settlement of or judgment in one or more of these actions substantially in excess of our recorded reserves could have a significant impact on us, and we can give no assurance that we will have the resources available to pay any such judgment. The magnitude of any settlement or judgment resulting from these actions could materially and adversely affect our ability to meet our debt obligations and our financial condition, potentially impacting our credit ratings, our ability to access capital markets and our compliance with debt covenants. In addition, the magnitude of any such settlement or judgment may cause us to draw down significantly on our cash balances, which might force us to obtain additional financing or explore other methods to generate cash. Such methods could include issuing additional securities or selling assets.

DOJ Investigation

On July 9, 2002, we were informed by the U.S. Attorney's Office for the District of Colorado of a criminal investigation of Qwest's business. We believe the U.S. Attorney's Office is investigating various matters that include the transactions related to the various adjustments and restatements described in our 2002 Financial Statements, transactions between us and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us, and certain prior disclosures made by us. We are continuing in our efforts to cooperate fully with the U.S. Attorney's Office in its investigation. However, we cannot predict the outcome of this investigation or the timing of its resolution.

Securities Actions

Qwest is a defendant in the securities actions described below. Plaintiffs in these actions have variously alleged, among other things, that Qwest violated federal and state securities laws, engaged in fraud, civil conspiracy and negligent misrepresentation, and breached fiduciary duties owed to investors and current and former employees. Other defendants in one or more of these actions include current and former directors of Qwest, former officers and employees of Qwest, Arthur Andersen LLP, certain investment banks and others.

- **Consolidated securities action.** Twelve putative class actions purportedly brought on behalf of purchasers of publicly traded securities of Qwest between May 24, 1999 and February 14, 2002 have been consolidated into a consolidated securities action pending in federal district court in Colorado. The first of these actions was filed on July 27, 2001. Plaintiffs allege, among other things, that defendants issued false and misleading financial results and made false statements about Qwest's business and investments, including making materially false statements in certain Qwest registration statements. The most recent complaint in this matter seeks unspecified compensatory damages and other relief. However, counsel for plaintiffs indicated that the putative class will seek damages in the tens of billions of dollars. Further, a non−class action brought by Stichting Pensioenfonds ABP ("SPA") (described below under "SPA action") has also been consolidated with the consolidated securities action.

  Settlement of consolidated securities action. On October 31, 2005, Qwest and the putative class representatives in *In re Qwest Communications International Inc. Securities Litigation* entered into a Memorandum of Understanding, or MOU, to settle that case. The MOU requires the parties to execute an agreement substantially in the form of the settlement agreement attached to the MOU, provided that plaintiffs' counsel prepare the following documents that are acceptable to us: (i) a supplemental agreement regarding requests by putative class members to be excluded from the settlement; (ii) a plan of allocation of the settlement proceeds; and (iii) exhibits to the settlement agreement and related documents. Plaintiffs and we agreed to perform all necessary actions to finalize and file the settlement agreement and related documents as soon as reasonably possible.

  Under the contemplated settlement agreement, we would pay a total of $400 million in cash—$100 million 30 days after preliminary approval of the proposed settlement by the federal district court in Colorado, $100 million 30 days after final approval of the settlement by the court, and $200 million on January 15, 2007, plus interest at 3.75% per annum on the $200 million between the date of final approval by the court and the date of payment.

  The contemplated settlement agreement would settle the individual claims of the putative class representatives and the claims of the class they purport to represent against us and all defendants in *In re Qwest Communications International Inc. Securities Litigation*, except Joseph Nacchio, our former chief executive officer, and Robert Woodruff, our former chief financial officer. (The non−class action

brought by SPA that has been consolidated for pre−trial discovery purposes with the consolidated securities action is not part of the settlement.) As part of the contemplated settlement, the Company would receive $10 million from Arthur Andersen LLP, which is also being released by the putative class representatives and the class they purport to represent, which will offset $10 million of the $400 million that would be payable by the Company.

The contemplated settlement agreement would be subject to a number of conditions and future contingencies. Among others, it would (i) require both preliminary and final court approval; (ii) provide plaintiffs with the right to terminate the settlement if the $250 million we previously committed to pay to the SEC in settlement of its investigation against us is not distributed to the class members; (iii) provide us with the right to terminate the settlement if class members representing more than a specified amount of alleged securities losses elect to opt out of the settlement; (iv) provide us with the right to terminate the settlement if we do not receive adequate protections for claims of indemnification relating to substantive liabilities of non−settling defendants; and (v) be subject to review on appeal even if the district court were to finally approve it. Any lawsuits that may be brought by parties opting out of the settlement will be vigorously defended regardless of whether the settlement described herein is consummated. No parties admit any wrongdoing as part of the contemplated settlement agreement.

- **ERISA actions.** Seven putative class actions purportedly brought on behalf of all participants and beneficiaries of the Qwest Savings and Investment Plan and predecessor plans, or the Plan, from March 7, 1999 until January 12, 2004 have been consolidated into a consolidated action in federal district court in Colorado. These suits also purport to seek relief on behalf of the Plan. The first of these actions was filed in March 2002. Plaintiffs assert breach of fiduciary duty claims against us and others under the Employee Retirement Income Security Act of 1974, as amended, alleging, among other things, various improprieties in managing holdings of Qwest stock in the Plan. Plaintiffs seek damages, equitable and declaratory relief, along with attorneys' fees and costs and restitution. A non−class action alleging similar claims was filed in the federal district court in Montana in June 2003 and was later transferred to federal district court in Colorado.

- **Colorado action.** A putative class action purportedly brought on behalf of purchasers of Qwest's stock between June 28, 2000 and June 27, 2002 and owners of U S WEST stock on June 28, 2000 is pending in Colorado in the District Court for the County of Boulder. This action was filed on June 27, 2002. Plaintiffs allege, among other things, that the defendants issued false and misleading statements and engaged in improper accounting practices in order to accomplish the U S WEST/Qwest merger, to make Qwest appear successful and to inflate the value of Qwest's stock. Plaintiffs seek unspecified monetary damages, disgorgement of illegal gains and other relief.

- **New Jersey action.** An action by the State of New Jersey (Treasury Department, Division of Investment), or New Jersey, is pending in the New Jersey Superior Court, Mercer County. This action was filed on November 27, 2002. New Jersey alleges, among other things, that defendants caused Qwest's stock to trade at artificially inflated prices by employing improper accounting practices and by issuing false statements about Qwest's business, revenue and profits, and contends that it incurred hundreds of millions of dollars in losses. Among other requested relief, New Jersey seeks from the defendants, jointly and severally, compensatory, consequential, incidental and punitive damages.

- **CalSTRS action.** An action by the California State Teachers' Retirement System, or CalSTRS, is pending in the Superior Court of the State of California in and for the County of San Francisco. This action was filed on December 10, 2002. CalSTRS alleges, among other things, that defendants engaged in a scheme to falsely inflate Qwest's revenue and decrease its expenses so that Qwest would appear

more successful than it actually was during the period in which CalSTRS purchased Qwest securities, and asserts that defendants' actions caused it to lose in excess of $150 million invested in Qwest's equity and debt securities. Plaintiffs seek compensatory, special and punitive damages, restitution, pre−judgment interest and costs.

- **SURSI action.** An action by the State Universities Retirement System of Illinois, or SURSI, is pending in the Circuit Court of Cook County, Illinois. This action was filed on January 10, 2003. SURSI alleges, among other things, that defendants engaged in a scheme to falsely inflate Qwest's revenue and decrease its expenses by improper conduct related to transactions with various customers and suppliers and claims that its losses from investments in Qwest securities are in excess of $12.5 million. SURSI seeks, among other things, compensatory and punitive damages, costs, equitable relief, including an injunction to freeze or prevent disposition of the defendants' assets, and disgorgement.

- **SPA action.** An action by SPA is pending in federal district court in Colorado. This action was filed on February 9, 2004. SPA alleges, among other things, that defendants created a false perception of Qwest's revenue and growth prospects and that its losses from investments in Qwest securities are in excess of $100 million. SPA seeks, among other things, compensatory and punitive damages, rescission or rescissionary damages, pre−judgment interest, attorneys' fees and costs.

- **SHC action.** An action by Shriners Hospital for Children, or SHC, is pending in federal district court in Colorado. This action was filed on March 22, 2004. SHC alleges, among other things, that defendants issued false and misleading financial reports about Qwest. SHC alleges compensatory damages of approximately $17 million. SHC seeks compensatory and punitive damages, interest, costs and attorneys' fees.

- **TRSL action.** An action by the Teachers' Retirement System of Louisiana, or TRSL, is pending in federal district court in Colorado. This action was filed on or about March 30, 2004. TRSL alleges, among other things, that defendants issued false and misleading financial reports about Qwest. TRSL alleges compensatory damages of approximately $23 million. TRSL seeks compensatory and punitive damages, interest, costs and attorneys' fees.

- **NYC Funds action.** An action by a number of New York City pension and retirement funds, or NYC Funds, is pending in federal district court in Colorado. This action was filed on September 22, 2004. NYC Funds allege, among other things, that defendants created a false perception of Qwest's revenue and growth prospects and that their losses from investments in Qwest securities are in excess of $300 million. NYC Funds seek, among other things, compensatory and punitive damages, rescission or rescissionary damages, pre−judgment interest, attorneys' fees and costs.

KPNQwest Litigation/Investigation

A putative class action is pending in the federal district court for the Southern District of New York against Qwest, certain of our former executives who were also on the supervisory board of KPNQwest (in which we were a major shareholder), and others. This lawsuit was initially filed on October 4, 2002. The current complaint alleges, on behalf of certain purchasers of KPNQwest securities, that, among other things, defendants engaged in a fraudulent scheme and deceptive course of business in order to inflate KPNQwest's revenue and the value of KPNQwest securities. Plaintiffs seek compensatory damages and/or rescission as appropriate against defendants, as well as an award of plaintiffs' attorneys' fees and costs.

On October 31, 2002, Richard and Marcia Grand, co−trustees of the R.M. Grand Revocable Living Trust, dated January 25, 1991, filed a lawsuit in Arizona Superior Court which, as amended, alleges, among other things, that the defendants violated state and federal securities laws and breached their fiduciary duty in connection with investments by plaintiffs in securities of KPNQwest. Qwest is a defendant in this lawsuit along with Qwest B.V. (a subsidiary of Qwest), Joseph Nacchio, Qwest's former Chairman and Chief Executive Officer, and John McMaster, the former President and Chief Executive Officer of KPNQwest. Plaintiffs claim to have lost approximately $10 million in their investments in KPNQwest. In related rulings on July 28 and October 14, 2005, defendants' motion for partial summary judgment was granted with respect to a substantial portion of plaintiffs' damage claims.

On June 25, 2004, J.C. van Apeldoorn and E.T. Meijer, in their capacities as trustees in the Dutch bankruptcy proceeding for KPNQwest, filed a complaint in the federal district court for the District of New Jersey alleging violations of the Racketeer Influenced and Corrupt Organizations Act, and breach of fiduciary duty and mismanagement under Dutch law. Qwest is a defendant in this lawsuit along with Joseph Nacchio, Robert S. Woodruff, Qwest's former Chief Financial Officer, and John McMaster. Plaintiffs allege, among other things, that defendants' actions were a cause of the bankruptcy of KPNQwest and the bankruptcy deficit of KPNQwest was in excess of $3 billion. Plaintiffs seek compensatory and punitive damages, as well as an award of plaintiffs' attorneys' fees and costs.

On June 17, 2005, Appaloosa Investment Limited Partnership I, Palomino Fund Ltd., and Appaloosa Management L.P. filed a complaint in the federal district court for the Southern District of New York against Qwest, Joseph Nacchio, John McMaster and Koninklijke KPN N.V. ("KPN"). The complaint alleges that defendants violated federal securities laws in connection with the purchase by plaintiffs of certain KPNQwest debt securities. Plaintiffs seek compensatory damages, as well as an award of plaintiffs' attorneys' fees and costs.

Various former lenders to KPNQwest or their assignees, including Citibank, N.A., Deutsche Bank AG London and others have notified us of their intent to file legal claims in connection with the origination of a credit facility and subsequent borrowings made by KPNQwest of approximately €300 million under that facility. They have indicated that Qwest would be a defendant in this threatened lawsuit along with Joseph Nacchio, John McMaster, Drake Tempest, Qwest's former General Counsel, KPN and other former employees of Qwest, KPN or KPNQwest.

On August 23, 2005, the Dutch Shareholders Association (Vereniging van Effectenbezitters, or "VEB") filed a petition for inquiry with the Enterprise Chamber of the Amsterdam Court of Appeals, located in the Netherlands, with regard to KPNQwest, N.V. VEB seeks an inquiry into the policies and course of business at KPNQwest, that are alleged to have caused the bankruptcy of KPNQwest in May 2002, and an investigation into alleged mismanagement of KPNQwest by its executive management, supervisory board members, joint venture entities (Qwest and KPN), and KPNQwest's outside auditors and accountants.

The four KPNQwest litigation matters pending in the United States described above are in preliminary phases and we will continue to defend against these cases vigorously and will likewise defend against any claim asserted by KPNQwest's former lenders if litigation is filed. We have not yet conducted discovery on plaintiffs' possible recoverable damages and other relevant issues. Thus, we are unable at this time to estimate reasonably a range of loss that we would incur if the plaintiffs in one or more of these matters were to prevail. Any settlement or judgment in certain of these matters could be significant, and we can give no assurance that we will have the resources available to pay any such judgment. In the event of an adverse outcome in certain of these matters, our financial condition and our ability to meet our debt obligations could be materially and adversely affected.

Regulatory Matters

As described below, formal proceedings against us have been initiated with the public utilities commissions in several states alleging, among other things, that we, in contravention of federal and state law, failed to file interconnection agreements with the state commissions and that we therefore allegedly discriminated against various CLECs. The complainants seek fines, penalties and/or carrier credits.

- **Minnesota.** On February 14, 2002, the Minnesota Department of Commerce filed a formal complaint against us with the Minnesota Public Utilities Commission. On November 1, 2002, the Minnesota Commission issued a written order finding against us. The Minnesota Commission's final, written decision was issued on May 21, 2003 and would require a penalty payment to the state of approximately $26 million and payments of carrier credits of approximately $18 million. Of the $18 million, about $3 million has been released by the carriers in bankruptcy proceedings. The Minnesota Commission, the carriers and Qwest each appealed portions of the decision to the federal district court in Minnesota, and the district court upheld the penalty and vacated the carrier credits. The Minnesota Commission, the carriers and Qwest each have appealed to the Eighth Circuit Court of Appeals. The Court of Appeals heard oral argument on September 12, 2005, and took the case under advisement.

  Based upon newly−discovered evidence, on August 24, 2005, Qwest filed a motion requesting that the federal district court vacate the penalty based on our assertion that the underlying Minnesota Commission order is invalid. Qwest also requested the Minnesota Commission to investigate the newly−discovered evidence that relates to the validity of orders issued in this and other Minnesota Commission proceedings, and on October 7, 2005, the Minnesota Commission opened an investigation into the matter.

- **Colorado.** On April 15, 2004, Qwest and the Office of Consumer Counsel for Colorado entered into a settlement, subject to Colorado Commission approval, that would require Qwest to pay $7.5 million in contributions to state telecommunications programs and that offers CLECs credits that could total approximately $9 million. Of the $9 million, about $2 million has been released by the carriers in bankruptcy proceedings. The administrative law judge recommended rejection of the settlement and the initiation of a show cause docket against Qwest. The administrative law judge's recommendation came before the Commission on motions for reconsideration, and on April 25, 2005 the Commission issued an order stating that it will not open a show cause proceeding at this time but rather will open a new proceeding to consider the proposed settlement. Qwest has entered into an amended stipulation with the Office of Consumer Counsel, the Commission Staff, AT&T, and Covad that re−structures the allocation of credits to CLECs and does not create any additional financial obligations as compared to the April 14, 2004 stipulation between Qwest and the Office of Consumer Counsel. On September 30, 2005, the parties filed the stipulation with the Commission for approval.

Also, some telecommunications providers have filed private actions based on facts similar to those underlying these administrative proceedings. These private actions, together with any similar, future actions, could result in additional damages and awards that could be significant.

On July 15, 2004, the New Mexico state regulatory commission opened a proceeding to investigate whether we are in compliance with or are likely to meet a commitment that we made in 2001 to invest in communications infrastructure in New Mexico through March of 2006 pursuant to an Alternative Form of Regulation plan ("AFOR"). The AFOR says, in part, that "Qwest commits to devote a substantial budget to infrastructure investment, with the goal of achieving the purposes of this Plan. Specifically, Qwest will make capital expenditures of not less than $788 million over the term of this Plan. This level of investment is necessary to

meet the commitments made in this Plan to increase Qwest's investment and improve its service quality in New Mexico." Multiple parties filed comments in that proceeding and variously argued that we should be subject to a range of requirements including an escrow account for capital spending, new investment obligations, and customer credits or price reductions.

On April 14, 2005, the Commission issued its Final Order in connection with this investigation. In this Final Order, the Commission ruled that the evidence in the record indicates Qwest will not be in compliance with the investment commitment at the conclusion of the AFOR in March, 2006, and if the current trend in Qwest's capital expenditures continues, there will be a shortfall of $200 million or more by the end of the AFOR. The Commission also concluded that Qwest has an unconditional commitment to invest $788 million over the life of the AFOR. Finally, the Commission ruled that if Qwest fails to satisfy this investment commitment, any shortfall must be credited or refunded to Qwest's New Mexico customers. The Commission also opened an enforcement and implementation docket to review Qwest's investments and consider the structure and size of any refunds or credits to be issued to customers. On May 12 and 13, 2005, we filed appeals in federal district court and in the New Mexico State Supreme Court, respectively, challenging the lawfulness of the Commission's Final Order. On May 31, 2005, the Commission issued an order, in response to a Qwest report filed on May 20, 2005, designating a hearing examiner to conduct proceedings addressing whether customer credits and refunds should be imposed on Qwest based on Qwest's investment levels as of June 30, 2005, and prior to the expiration of the AFOR in March 2006.

Qwest has vigorously argued, and will continue to argue, among other things, that the underlying purpose of the investment commitment set forth in the AFOR has been met in that Qwest has met all service quality and service deployment obligations under the AFOR; that, in light of this, it should not be held to a specific amount of investment; and that the Commission has failed to include all eligible investments in the calculation of how much Qwest has actually invested. Nevertheless, Qwest believes it is unlikely the Commission will reverse its determination that Qwest has an unconditional obligation to invest $788 million over the term of the AFOR. In addition, Qwest has argued, and will continue to argue, that customer credits or refunds are an impermissible and illegal form of relief for the Commission to order in the event there is an investment shortfall.

Qwest believes there is a substantial likelihood that the ultimate outcome of this matter will result in it having to make expenditures or payments beyond those it would otherwise make in the normal course of business. These expenditures or payments could take the form of one or more of the following: penalties, capital investment, basic service rate reductions and customer refunds or credits. At this time, however, Qwest is not able to reasonably estimate the amount of these expenditures or payments and, accordingly, has not reserved any amount for such potential liability. Any final resolution of this matter could be material.

To the extent appropriate, we have provided reserves for the above matters. We have other regulatory actions pending in local regulatory jurisdictions, which call for price decreases, refunds or both. These actions are generally routine and incidental to our business.

Other Matters

Several putative class actions relating to the installation of fiber optic cable in certain rights−of−way were filed against Qwest on behalf of landowners on various dates and in various courts in California, Colorado, Georgia, Illinois, Indiana, Kansas, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas. For the most part, the complaints challenge Qwest's right to install its fiber optic cable in railroad rights−of−way. Complaints in Colorado, Illinois and Texas, also challenge Qwest's right to install fiber optic cable in utility and pipeline rights−of−way. The complaints allege that the railroads, utilities and pipeline

companies own a limited property right−of−way that did not include the right to permit Qwest to install Qwest's fiber optic cable in the right−of−way without the Plaintiffs' consent. Most actions (California, Colorado, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oregon, South Carolina, Tennessee and Texas) purport to be brought on behalf of state−wide classes in the named plaintiffs' respective states. Several actions purport to be brought on behalf of multi−state classes. The Illinois state court action purports to be on behalf of landowners in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. A newly filed Illinois federal court action purports to be on behalf of landowners in Arkansas, California, Florida, Illinois, Indiana, Missouri, Nevada, New Mexico, Montana and Oregon. The Indiana action purports to be on behalf of a national class of landowners adjacent to railroad rights−of−way over which Qwest's network passes. The complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages.

On January 20, 2004, we filed a complaint in the District Court for the City and County of Denver against KMC Telecom LLC and several of its related parent or subsidiary companies (collectively, "KMC"). Subsequently, we filed an amended complaint to name additional defendants, including General Electric Capital Corporation ("GECC"), one of KMC's lenders, and GECC filed a complaint in intervention. We are seeking a declaration that a series of agreements with KMC and its lenders are not effective because conditions precedent were not satisfied and to recoup other damages and attorneys' fees and costs. These agreements would obligate us to pay a net incremental amount of approximately $105 million if determined to be effective. GECC and KMC have asserted counterclaims for declaratory judgment and anticipatory breach of contract. GECC and KMC seek a declaration that the relevant agreements are in effect and claim monetary damages for anticipatory breach of the agreements and their attorneys' fees and costs.

The Internal Revenue Service, or IRS, proposed a tax adjustment for tax years 1994 through 1996. The principal issue involves Qwest's allocation of costs between long−term contracts with customers for the installation of conduit or fiber optic cable and additional conduit or fiber optic cable retained by us. The IRS disputes the allocation of the costs between Qwest and third parties. Similar claims have been asserted against Qwest with respect to the 1997 to 1998 and the 1998 to 2001 audit periods. The 1994−1996 claim is currently being litigated in the Tax Court, and we do not believe the IRS will be successful, although the ultimate outcome is uncertain. If Qwest were to lose this issue for the tax years 1994 through 1998, we estimate that we would have to pay $57 million plus interest pursuant to tax sharing agreements with the Anschutz Company relating to those time periods.

In 2004, we recorded income tax expense of $158 million related to a change in the expected timing of deductions related to our tax strategy, referred to as the Contested Liability Acceleration Strategy ("CLAS"), which we implemented in 2000. CLAS is a strategy that sets aside assets to provide for the satisfaction of asserted liabilities associated with litigation in a tax efficient manner. CLAS accelerated deductions for contested liabilities by placing assets for potential litigation liabilities out of the control of the company and into trusts managed by a third party trustee. In July 2004, we were formally notified by the IRS that it was contesting the CLAS tax strategy. Also in July 2004, in connection with the preparation of our financial statements for the fiscal quarter ended June 30, 2004, and as a result of a series of notices on CLAS strategies issued by the IRS and the receipt of legal advice with respect thereto, we adjusted our accounting for CLAS as required by SFAS No. 109, "Accounting for Income Taxes." The change in expected timing of deductions caused an increase in our liability for uncertain tax positions and a corresponding increase in our net operating loss carry−forwards ("NOLs"). Because we are not currently forecasting future taxable income sufficient to realize the benefits of this increase in our NOLs, we recorded an increase in our valuation allowance on deferred tax assets as required by SFAS No. 109. Additionally, in September 2004 the IRS proposed a penalty of $37 million on this strategy. We believe that the imposition of a penalty is not appropriate as we acted in good faith in implementing this tax strategy in

reliance on two contemporaneous tax opinions and adequately disclosed this transaction to the IRS in our initial and subsequent tax returns. We intend to vigorously defend our position on this and other tax matters.

We have other tax related matters pending against us. We believe we have adequately provided for these matters.

Matter Resolved in the Third Quarter

In January 2001, an amended class action complaint was filed in Denver District Court on behalf of a class of U S WEST stockholders of record as of June 30, 2000, the day of the U S WEST/Qwest merger, alleging that Qwest had a duty to pay a quarterly dividend that had been declared by the U S WEST Board of Directors on June 2, 2000. The complaint named as defendants Qwest, the individuals who served on the U S WEST Board of Directors in June 2000, and Joseph Nacchio. Plaintiffs claimed that the defendants attempted to avoid paying the dividend by changing the record date from June 30, 2000 to July 10, 2000, a claim Qwest denied. Plaintiffs sought damages of approximately $273 million plus interest, a constructive trust upon Qwest's assets in the amount of the dividend, costs, and attorneys' fees on behalf of the class, which was certified by the court in January 2005. On June 24, 2005, the court preliminarily approved a $50 million settlement, almost half of which would be funded by the defendants' insurers. QCII accrued for its portion, and QCII and its insurers have since funded the settlement. On August 30, 2005, the court entered final approval of the settlement as fair, just, reasonable and adequate as to the class. On the same day, the court entered orders approving the request of plaintiffs' counsel for $15 million in attorneys' fees and $1.3 million in costs to be paid from the settlement fund. At the time of the final fairness hearing, a group of U S WEST retirees intervened and subsequently appealed the order awarding fees and costs to the plaintiffs' lawyers. Pursuant to the underlying stipulation of settlement, this appeal does not impact the finality of the settlement or the amount, and although QCII is a party to the appeal, the only issue to be resolved is the amount of fees and costs to be awarded plaintiffs' lawyers out of the $50 million settlement fund.

Note 11: Financial Statements of Guarantors

In February 2004, QCII issued a total of $1.775 billion of senior notes, which consisted of $750 million of Floating Rate Senior Notes due 2009 with interest at LIBOR plus 3.50%, $525 million of 7 1/4% Senior Notes due 2011, and $500 million of 7 1/2% Senior Notes due 2014, and in June 2005 QCII issued $800 million of 7 1/2% Senior Notes due 2014—Series B (collectively, the "QCII Guaranteed Notes"). In addition, over the period from December 2002 to April 2003, we executed exchanges of approximately $5.8 billion in total face amount of QCF notes for approximately $3.7 billion of QSC notes consisting of 13.00% Senior Subordinated Secured Notes due 2007, 13.50% Senior Subordinated Secured Notes due 2010 and 14.00% Senior Subordinated Secured Notes due 2014 (collectively, the "QSC Guaranteed Notes"). Also, in connection with cash tender offers in December 2003 and June 2005, QSC purchased an aggregate of $779 million face amount of the QSC Guaranteed Notes for $886 million in cash. As of September 30, 2005, the outstanding QSC Guaranteed Notes totaled $2.9 billion. The QCII Guaranteed Notes are guaranteed by QCF and QSC. The QSC Guaranteed Notes are guaranteed by QCF and QCII on a senior basis, and the guarantee by QCII is secured by liens on the stock of QSC and QCF.

The guarantees are full and unconditional, and joint and several. A significant amount of QCII's and QSC's income and cash flow are generated by their subsidiaries. As a result, funds necessary to meet each issuer's debt service obligations are provided in large part by distributions or advances from their subsidiaries. Under certain circumstances, contractual and legal restrictions, as well as our and our subsidiaries' financial condition and

operating requirements, could limit each issuer's ability to obtain cash for the purpose of meeting its debt service obligations including the payment of principal and interest on its notes.

The following information sets forth our condensed consolidating balance sheets as of September 30, 2005 and December 31, 2004 and our condensed consolidating statements of operations for the three and nine months ended September 30, 2005 and 2004 and our condensed consolidating statements of cash flows for the nine months ended September 30, 2005 and 2004. The information for QCII, QSC and QCF is presented for each entity on a stand−alone basis, including that entity's investments in all of its subsidiaries, if any, under the equity method. The direct subsidiaries of QCII that are not guarantors of the QCII Guaranteed Notes or the QSC Guaranteed Notes are presented on a combined basis. The subsidiaries of QSC that are not guarantors of the QCII Guaranteed Notes or the QSC Guaranteed Notes are presented on a combined basis. Both QSC and QCF are 100% owned by QCII. Other than as already described herein, the accounting principles used are the same as those used in our consolidated financial statements.

In September 2005, QCII entered in a guaranty with a bank that issued a letter of credit to QSC for $47 million. QCII unconditionally guaranteed full and punctual payment and performance of QSC's obligations.

We utilize lines of credit between certain of our entities, other intercompany obligations, capital contributions and dividends (including partnership distributions) to manage our cash. Amounts outstanding under these intercompany lines of credit and intercompany obligations may vary materially over time.

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantors	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
Operating revenue	$ —	$ —	$ —	$ 3	$ 3,501	$ —	$ 3,504
Operating revenue—affiliate	—	328	—	9	40	(377)	—
Operating expenses:							
Cost of sales (exclusive of depreciation and amortization)	—	268	—	—	1,504	(260)	1,512
Cost of sales—affiliate	—	50	—	—	24	(74)	—
Selling, general and administrative	22	—	—	13	721	260	1,016
Selling, general and administrative—affiliate	—	—	—	—	303	(303)	—
Depreciation	—	1	—	—	658	—	659
Amortization of capitalized software and other intangible assets	—	—	—	—	109	—	109
Total operating expenses	22	319	—	13	3,319	(377)	3,296
Operating (loss) income	(22)	9	—	(1)	222	—	208
Other expense (income):							
Interest expense—net	52	99	66	—	167	—	384
Interest expense—affiliate	1	—	115	—	267	(383)	—
Interest income—affiliate	—	(116)	(266)	(1)	—	383	—
Gain on early retirement of debt—net	—	—	(11)	—	—	—	(11)
Other income—net	(2)	(8)	—	(2)	(8)	—	(20)
Loss from equity investments in subsidiaries	107	333	—	—	—	(440)	—
Total other expense (income)—net	158	308	(96)	(3)	426	(440)	353
(Loss) income before income taxes	(180)	(299)	96	2	(204)	440	(145)
Income tax benefit (expense)	36	131	(36)	(1)	(129)	—	1
Net (loss) income	$(144)	$ (168)	$ 60	$ 1	$ (333)	$ 440	$ (144)

(1) QCII is the issuer of the QCII Guaranteed Notes and is a guarantor of the QSC Guaranteed Notes.
(2) QSC is a guarantor of the QCII Guaranteed Notes and is the issuer of the QSC Guaranteed Notes.
(3) QCF is a guarantor of both the QCII Guaranteed Notes and the QSC Guaranteed Notes.

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantors	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
Operating revenue	$ —	$ —	$ —	$ 1	$ 3,448	$ —	$ 3,449
Operating revenue—affiliate	—	365	—	8	45	(418)	—
Operating expenses:							
Cost of sales (exclusive of depreciation and amortization)	—	263	—	—	1,542	(257)	1,548
Cost of sales—affiliate	—	47	—	—	24	(71)	—
Selling, general and administrative	263	—	—	9	722	267	1,261
Selling, general and administrative—affiliate	—	—	—	—	357	(357)	—
Depreciation	—	—	—	—	659	—	659
Amortization of capitalized software and other intangible assets	—	—	—	—	120	—	120
Asset impairment charges	—	—	—	—	34	—	34
Total operating expenses	263	310	—	9	3,458	(418)	3,622
Operating (loss) income	(263)	55	—	—	35	—	(173)
Other expense (income):							
Interest expense—net	33	113	72	—	156	—	374
Interest expense—affiliate	—	—	316	—	398	(714)	—
Interest income—affiliate	(18)	(300)	(395)	—	(1)	714	—
Loss on early retirement of debt—net	—	—	—	—	6	—	6
Other expense (income) —net	—	39	—	(1)	(4)	—	34
Loss from equity investments in subsidiaries	295	697	—	—	—	(992)	—
Total other expense (income)— net	310	549	(7)	(1)	555	(992)	414
(Loss) income before income taxes	(573)	(494)	7	1	(520)	992	(587)
Income tax benefit (expense)	4	195	(3)	(1)	(177)	—	18
Net (loss) income	$(569)	$ (299)	$ 4	$ —	$ (697)	$ 992	$ (569)

(1) QCII is the issuer of the QCII Guaranteed Notes and is a guarantor of the QSC Guaranteed Notes.
(2) QSC is a guarantor of the QCII Guaranteed Notes and is the issuer of the QSC Guaranteed Notes.
(3) QCF is a guarantor of both the QCII Guaranteed Notes and the QSC Guaranteed Notes.

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantor	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
Operating revenue	$ —	$ —	$ —	$ 6	$ 10,417	$ —	$ 10,423
Operating revenue—affiliate	—	1,005	—	27	116	(1,148)	—
Operating expenses:							
Cost of sales (exclusive of depreciation and amortization)	—	820	—	—	4,362	(797)	4,385
Cost of sales—affiliate	—	144	—	—	72	(216)	—
Selling, general and administrative	84	—	—	32	2,184	797	3,097
Selling, general and administrative—affiliate	—	—	—	—	932	(932)	—
Depreciation	—	2	—	—	1,959	—	1,961
Amortization of capitalized software and other intangible assets	—	—	—	—	346	—	346
Total operating expenses	84	966	—	32	9,855	(1,148)	9,789
Operating (loss) income	(84)	39	—	1	678	—	634
Other expense (income):							
Interest expense—net	127	324	204	—	490	—	1,145
Interest expense—affiliate	5	—	481	—	940	(1,426)	—
Interest income—affiliate	(18)	(469)	(937)	(2)	—	1,426	—
Loss (gain) on early retirement of debt—net	—	18	(23)	—	37	—	32
Gain on the sale of assets—net	—	—	—	—	(257)	—	(257)
Other (income) expense—net	(5)	(17)	—	(2)	(11)	—	(35)
Loss from equity investments in subsidiaries	163	962	—	—	—	(1,125)	—
Total other expense (income)— net	272	818	(275)	(4)	1,199	(1,125)	885
(Loss) income before income taxes	(356)	(779)	275	5	(521)	1,125	(251)
Income tax benefit (expense)	105	442	(104)	(2)	(441)	—	—
Net (loss) income	$(251)	$ (337)	$ 171	$ 3	$ (962)	$ 1,125	$ (251)

(1) QCII is the issuer of the QCII Guaranteed Notes and is a guarantor of the QSC Guaranteed Notes.
(2) QSC is a guarantor of the QCII Guaranteed Notes and is the issuer of the QSC Guaranteed Notes.
(3) QCF is a guarantor of both the QCII Guaranteed Notes and the QSC Guaranteed Notes.

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantors	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
Operating revenue	$ —	$ —	$ —	$ 4	$ 10,368	$ —	$ 10,372
Operating revenue—affiliate	—	1,081	—	24	100	(1,205)	—
Operating expenses:							
Cost of sales (exclusive of depreciation and amortization)	—	853	—	—	4,473	(837)	4,489
Cost of sales—affiliate	—	118	—	—	66	(184)	—
Selling, general and administrative	605	—	—	27	2,430	837	3,899
Selling, general and administrative—affiliate	—	—	—	—	1,021	(1,021)	—
Depreciation	—	1	—	—	1,973	—	1,974
Amortization of capitalized software and other intangible assets	—	—	—	—	367	—	367
Asset impairment charges	—	—	—	—	77	—	77
Total operating expenses	605	972	—	27	10,407	(1,205)	10,806
Operating (loss) income	(605)	109	—	1	61	—	(434)
Other expense (income):							
Interest expense—net	85	378	223	—	479	(1)	1,164
Interest expense—affiliate	6	—	875	—	1,162	(2,043)	—
Interest income—affiliate	(36)	(856)	(1,151)	—	(1)	2,044	—
(Gain) loss on early retirement of debt—net	—	—	(5)	—	6	—	1
Other (income) expense—net	(11)	34	—	(1)	(81)	—	(59)
Loss from equity investments in subsidiaries	1,029	1,972	—	—	—	(3,001)	—
Total other expense (income)— net	1,073	1,528	(58)	(1)	1,565	(3,001)	1,106
(Loss) income before income taxes	(1,678)	(1,419)	58	2	(1,504)	3,001	(1,540)
Income tax benefit (expense)	23	353	(22)	(1)	(468)	—	(115)
Net (loss) income	$(1,655)	$(1,066)	$ 36	$ 1	$ (1,972)	$ 3,001	$ (1,655)

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QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2005
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantors	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
ASSETS							
Current assets:							
Cash and cash equivalents	$ 92	$ 1,807	$ —	$ —	$ 412	$ —	$ 2,311
Short−term investments	24	465	—	—	91	—	580
Accounts receivable—net	—	12	—	2	1,581	—	1,595
Accounts receivable—affiliates	31	346	88	—	24	(489)	—
Current tax receivable	52	157	—	—	—	(209)	—
Notes receivable—affiliates	—	5,270	13,806	80	—	(19,156)	—
Deferred income taxes	—	—	—	—	73	(51)	22
Prepaid and other assets	19	43	—	121	367	(18)	532
Assets held for sale	—	—	—	—	14	—	14
Total current assets	218	8,100	13,894	203	2,562	(19,923)	5,054
Property, plant and equipment— net	—	5	—	—	15,807	—	15,812
Capitalized software and other intangible assets—net	40	—	—	—	995	—	1,035
Investments in subsidiaries	327	(10,907)	—	—	—	10,580	—
Deferred income taxes	—	2,007	20	10	—	(2,031)	6
Prepaid pension assets	—	92	—	—	1,080	—	1,172
Other assets	111	82	16	—	438	1	648
Total assets	$ 696	$ (621)	$13,930	$ 213	$ 20,882	$ (11,373)	$ 23,727
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY							
Current liabilities:							
Current borrowings	$ 5	$ —	$ 485	$ —	$ 37	$ —	$ 527
Current borrowings—affiliates	80	—	5,270	—	13,806	(19,156)	—
Accounts payable	6	30	—	—	704	—	740
Accounts payable—affiliates	3	22	—	17	265	(307)	—
Accrued expenses and other current liabilities	367	322	109	92	1,700	(260)	2,330
Accrued expenses and other current liabilities—affiliates	—	—	39	30	131	(200)	—
Deferred revenue and advanced billings	—	—	—	—	635	—	635
Total current liabilities	461	374	5,903	139	17,278	(19,923)	4,232
Long−term borrowings—net	2,624	3,027	2,986	—	8,065	—	16,702
Post−retirement and other post− employment benefit obligations	—	439	—	—	2,969	—	3,408
Deferred income taxes	30	—	—	—	2,001	(2,031)	—
Deferred revenue	—	—	—	—	532	—	532
Other long−term liabilities	297	269	1	57	944	1	1,569
Total liabilities	3,412	4,109	8,890	196	31,789	(21,953)	26,443
Stockholders' (deficit) equity	(2,716)	(4,730)	5,040	17	(10,907)	10,580	(2,716)
Total liabilities and stockholders' equity (deficit)	$ 696	$ (621)	$13,930	$ 213	$ 20,882	$ (11,373)	$ 23,727

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QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2004
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantors	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
ASSETS							
Current assets:							
Cash and cash equivalents	$ 34	$ 608	$ —	$ —	$ 509	$ —	$ 1,151
Short−term investments	24	427	—	—	313	—	764
Accounts receivable—net	—	13	2	2	1,577	—	1,594
Accounts receivable—affiliates	72	466	141	—	84	(763)	—
Current tax receivable	—	227	—	—	—	(227)	—
Notes receivable—affiliates	87	13,986	21,972	59	—	(36,104)	—
Deferred income taxes	—	—	—	—	111	(111)	—
Prepaid and other assets	—	38	—	67	452	(8)	549
Assets held for sale	—	—	—	—	160	—	160
Total current assets	217	15,765	22,115	128	3,206	(37,213)	4,218
Property, plant and equipment—net	—	5	—	—	16,848	—	16,853
Capitalized software and other intangible assets—net	39	—	—	—	1,140	—	1,179
Investments in subsidiaries	(1,266)	(18,006)	—	—	—	19,272	—
Deferred income taxes	—	2,232	24	10	—	(2,228)	38
Prepaid pension assets	—	96	—	—	1,096	—	1,192
Other assets	1,140	107	23	56	468	(950)	844
Total assets	$ 130	$ 199	$22,162	$ 194	$ 22,758	$ (21,119)	$ 24,324
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY							
Current liabilities:							
Current borrowings	$ 5	$ —	$ 179	$ —	$ 412	$ —	$ 596
Current borrowings—affiliates	126	—	13,976	—	22,002	(36,104)	—
Accounts payable	3	31	—	—	698	(1)	731
Accounts payable—affiliates	—	2	—	—	234	(236)	—
Accrued expenses and other current liabilities	174	334	123	35	1,962	(338)	2,290
Accrued expenses and other current liabilities—affiliates	17	65	139	53	260	(534)	—
Deferred revenue and advanced billings	—	—	—	—	669	—	669
Total current liabilities	325	432	14,417	88	26,237	(37,213)	4,286
Long−term borrowings—net	1,886	3,528	3,637	—	7,639	—	16,690
Post−retirement and other post− employment benefit obligations	—	433	—	—	2,958	—	3,391
Deferred income taxes	34	—	—	—	2,194	(2,228)	—
Deferred revenue	—	—	—	—	559	—	559
Other long−term liabilities	497	245	950	91	1,177	(950)	2,010
Total liabilities	2,742	4,638	19,004	179	40,764	(40,391)	26,936
Stockholders' (deficit) equity	(2,612)	(4,439)	3,158	15	(18,006)	19,272	(2,612)
Total liabilities and stockholders' (deficit) equity	$ 130	$ 199	$22,162	$ 194	$ 22,758	$ (21,119)	$ 24,324

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QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantors	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
OPERATING ACTIVITIES:							
Net (loss) income	$(251)	$ (337)	$ 171	$ 3	$ (962)	$ 1,125	$ (251)
Adjustments to net (loss) income	61	1,245	36	—	2,015	(1,125)	2,232
Net change in operating assets and liabilities	90	94	(105)	19	(491)	—	(393)
Cash (used for) provided by operating activities	(100)	1,002	102	22	562	—	1,588
INVESTING ACTIVITIES:							
Expenditures for property, plant and equipment	(1)	(20)	—	—	(1,089)	—	(1,110)
Proceeds from sale of property, plant and equipment	—	—	—	—	418	—	418
Proceeds from sales of investment securities	—	1,230	—	—	—	—	1,230
Purchases of investment securities	—	(1,002)	—	—	—	—	(1,002)
Net proceeds (purchases) of investments managed by QSC	2	(241)	—	—	239	—	—
Cash infusion to subsidiaries	(530)	(10,000)	—	—	—	10,530	—
Net decrease (increase) in short−term affiliate loans	—	8,619	8,166	(22)	—	(16,763)	—
Dividends received from subsidiaries	—	2,015	—	—	—	(2,015)	—
Other	—	97	—	—	22	(97)	22
Cash (used for) provided by investing activities	(529)	698	8,166	(22)	(410)	(8,345)	(442)
FINANCING ACTIVITIES							
Proceeds from long−term borrowings	735	—	—	—	1,152	—	1,887
Repayments of long−term borrowings, including current maturities	—	(452)	(179)	—	(1,147)	—	(1,778)
Net (repayments of) proceeds from short−term affiliate borrowings	(45)	—	(8,619)	—	(8,099)	16,763	—
Proceeds from issuances of common and treasury stock	10	—	—	—	—	—	10
Equity infusion from parent	—	—	530	—	10,000	(10,530)	—
Dividends paid to parent	—	—	—	—	(2,015)	2,015	—
Debt issuance costs	(13)	—	—	—	(18)	—	(31)
Early retirement of debt costs	—	(49)	—	—	(25)	—	(74)
Other	—	—	—	—	(97)	97	—
Cash provided by (used for) financing activities	687	(501)	(8,268)	—	(249)	8,345	14
CASH AND CASH EQUIVALENTS							
Increase (decrease) in cash and cash equivalents	58	1,199	—	—	(97)	—	1,160
Beginning balance	34	608	—	—	509	—	1,151
Ending balance	$ 92	$ 1,807	$ —	$ —	$ 412	$ —	$ 2,311

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QWEST COMMUNICATIONS INTERNATIONAL INC.

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004
(UNAUDITED)

	QCII(1)	QSC(2)	QCF(3)	QCII Subsidiary Non−Guarantors	QSC Subsidiary Non−Guarantors	Eliminations	QCII Consolidated
				(Dollars in millions)			
OPERATING ACTIVITIES:							
Net (loss) income	$(1,655)	$(1,066)	$ 36	$ 1	$ (1,972)	$ 3,001	$ (1,655)
Adjustments to net (loss) income	1,022	2,393	14	1	2,190	(2,967)	2,653
Net change in operating assets and liabilities	673	313	(112)	7	(270)	—	611
Cash provided by (used for) operating activities	40	1,640	(62)	9	(52)	34	1,609
INVESTING ACTIVITIES:							
Expenditures for property, plant and equipment	(1)	—	—	—	(1,358)	—	(1,359)
Proceeds from sale of property, plant and equipment	—	—	—	—	15	—	15
Proceeds from sales of investment securities	—	1,159	—	—	5	—	1,164
Purchases of investment securities	—	(1,269)	—	—	—	—	(1,269)
Net proceeds (purchases) of investments managed by QSC	(49)	(156)	—	18	187	—	—
Cash infusion to subsidiaries	—	(2,201)	—	—	—	2,201	—
Net decrease (increase) in short−term affiliate loans	—	(902)	(1,116)	(64)	—	2,082	—
Long−term loans made to affiliates	(950)	—	—	—	—	950	—
Principle collected on long−term affiliate loans	—	400	310	—	—	(710)	—
Dividends received from subsidiaries	—	2,471	—	—	—	(2,471)	—
Other	—	—	—	—	5	—	5
Cash (used for) provided by investing activities	(1,000)	(498)	(806)	(46)	(1,146)	2,052	(1,444)
FINANCING ACTIVITIES							
Proceeds from long−term borrowings	1,763	—	—	—	571	—	2,334
Repayments of long−term borrowings, including current maturities	—	(750)	(963)	—	(769)	—	(2,482)
Proceeds from long−term borrowings, affiliate	—	—	950	—	—	(950)	—
Payments of long−term borrowings, affiliate	—	—	—	—	(710)	710	—
Net (repayments of) proceeds from short−term affiliate borrowings	(723)	—	902	—	1,903	(2,082)	—
Proceeds from issuances of common and treasury stock	39	—	—	—	—	(34)	5
Equity infusion from parent	—	—	—	—	2,201	(2,201)	—
Dividends paid to parent	—	—	—	—	(2,471)	2,471	—
Debt issuance costs	(32)	(9)	—	—	(9)	—	(50)
Early retirement of debt costs	—	—	(21)	—	(3)	—	(24)
Cash provided by (used for) financing activities	1,047	(759)	868	—	713	(2,086)	(217)
CASH AND CASH EQUIVALENTS							
Increase (decrease) in cash and cash equivalents	87	383	—	(37)	(485)	—	(52)
Beginning balance	—	461	—	37	868	—	1,366
Ending balance	$ 87	$ 844	$ —	$ —	$ 383	$ —	$ 1,314

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Note 12: Union Contract

In August 2005, we reached agreements with the Communications Workers of America, or CWA, and the International Brotherhood of Electrical Workers, or IBEW, on new three−year labor agreements. Each of these agreements was ratified by union members on September 30, 2005 and expires on August 16, 2008.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, references in this report to "Qwest," "we," "us," the "Company" and "our" refer to Qwest Communications International Inc. and its consolidated subsidiaries and references in this report to "QCII" refer to Qwest Communications International Inc. on an unconsolidated, stand−alone basis.

Certain statements set forth below under this caption constitute forward−looking statements. See "Special Note Regarding Forward−Looking Statements" at the end of this Item 2 for additional factors relating to such statements as well as for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

Business Overview and Presentation

We provide local telecommunications and related services, long−distance services and wireless, data and video services within our local service area, which consists of the 14−state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We also provide InterLATA long−distance services and reliable, scalable and secure broadband data and voice communications outside our local service area as well as globally.

Our analysis presented below is organized to provide the information we believe will be instructive for understanding the relevant trends going forward. However, this discussion should be read in conjunction with our condensed consolidated financial statements in Item 1 of Part I of this report, including the footnotes thereto. Our operating revenue is generated from our wireline services, wireless services and other services segments. An overview of the segment results is provided in Note 8—Segment Information to our condensed consolidated financial statements in Item 1 of Part I of this report. Segment discussions reflect the way we reported our segment results to our Chief Operating Decision Maker ("CODM") in the third quarter of 2005 and include revenue results for each of our customer channels within the wireline services segment: business, mass markets and wholesale. In order to better serve the similar needs of our small business and consumer customers, in the second quarter of 2005, we combined these customers into a new channel, which we refer to as "mass markets," and have reclassified our small business customers for all periods presented. Certain prior year revenue and expense amounts have been reclassified to conform to the current year presentations.

In August 2005, we reached agreements with the Communications Workers of America, or CWA, and the International Brotherhood of Electrical Workers, or IBEW, on new three−year labor agreements. Each of these agreements was ratified by union members on September 30, 2005 and expires on August 16, 2008.

Business Trends

Our results continue to be impacted by a number of factors influencing the telecommunications industry as follows:

- Industry competition is based primarily on pricing, packaging of services and features, quality of service and increasingly on meeting customer care needs. We expect this trend to continue. Our on−going response to industry competition has included initiatives to retain and win−back customers by rolling out new or expanded services such as wireless, in−region long−distance, DSL, video and VoIP, bundling of expanded feature−rich products and improving the quality of our customer service. We have increased our marketing and advertising spending levels over the last year and have seen increased sales of our bundle and package offerings. The success of these offerings has resulted in increased long distance and DSL sales (as customers add more products) which partially offset lower revenue due to access line losses. While bundle discounts result in lower average revenue for our products, we believe they improve customer retention.

- The consolidation trend in the telecommunications industry, as exemplified by the currently proposed mergers, could have significant impact on customer choice and may impact our efforts to win customers

and strengthen our position as a national provider of communications services. Our revenue and expenses may also be impacted as partners to these proposed mergers integrate and consolidate their operations.

- We expect technology substitution such as wireless substitution for wireline telephones, cable telephony substitution for wireline telephony and cable modem substitution for dial−up modem lines and DSL, to continue to cause additional access line losses.

- Our results continue to be impacted by regulatory responses to the competitive landscape for both our local and long−distance services. For instance, recent FCC decisions, including its Triennial Review Remand Order, may facilitate some carriers converting existing special access transport services to lower priced UNE transport. Such conversions could have a significant impact on our future financial results.

- We expect business users of telecommunication services to increasingly want to receive all of their services from one provider.

Results of Operations

Overview

We generate revenue from our wireline services, wireless services and other services. Depending on the product or service purchased, a customer may pay for these products and services through an up−front or monthly fee, a usage charge or a combination of these.

- *Wireline services.* The wireline services segment utilizes our traditional telephone and fiber optic broadband networks to provide voice services and data and Internet services to mass markets (which includes consumer and small business customers), business and wholesale customers. Our wireline services include:

  - *Voice services.* Voice services revenue includes local voice services, long−distance voice services and access services. Local voice services revenue includes revenue from basic local exchange services, switching services, custom calling features, enhanced voice services, operator services, collocation services and related equipment. Long−distance voice services revenue includes revenue from InterLATA and IntraLATA long−distance services. Access services revenue includes fees charged to other long−distance providers to connect to our network.

  - *Data and Internet services.* Data and Internet services revenue includes data services (such as traditional private lines, wholesale private lines, frame relay, ATM and related equipment) and Internet services (such as DSL, DIA, VPN, Internet dial access, video, web hosting, professional services and related equipment).

- *Wireless services.* We offer wireless services and equipment to residential and business customers, providing them the ability to use the same telephone number for their wireless phone as for their home or business phone. In August 2003, we entered into a services agreement with a third party provider that allows us to resell wireless services, including access to its nationwide PCS wireless network, to mass markets and business customers, primarily within our local service area states. We began offering these services under our brand name in March 2004 and now provide the services through the third party provider’s network.

- *Other services.* Other services revenue is predominantly derived from the sublease of some of our unused real estate assets, such as space in our office buildings, warehouses and other properties.

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The following table summarizes our results of operations for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)							
Operating revenue	$3,504	$3,449	$ 55	2%	$10,423	$10,372	$ 51	0%
Operating expenses	3,296	3,622	(326)	(9)%	9,789	10,806	(1,017)	(9)%
Operating income (loss)	208	(173)	381	nm	634	(434)	1,068	nm
Other expense—net	353	414	(61)	(15)%	885	1,106	(221)	(20)%
Loss before income taxes	(145)	(587)	442	75%	(251)	(1,540)	1,289	84%
Income tax benefit (expense)	1	18	(17)	(94)%	—	(115)	115	nm
Net loss	$ (144)	$ (569)	$ 425	75%	$ (251)	$ (1,655)	$ 1,404	85%
Basic and diluted loss per share	$ (0.08)	$ (0.31)	$ 0.23	74%	$ (0.14)	$ (0.92)	$ 0.78	85%

nm—percentages greater than 200% and comparisons between positive and negative values or to zero values are considered not meaningful.

Operating Revenue

The following table compares operating revenue by segment including the detail of customer channels within our wireline services segment for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)							
Wireline services revenue								
Voice services:								
Local voice:								
Business	$ 272	$ 286	$ (14)	(5)%	$ 808	$ 855	$ (47)	(5)%
Mass markets	1,104	1,145	(41)	(4)%	3,356	3,520	(164)	(5)%
Wholesale	201	216	(15)	(7)%	628	654	(26)	(4)%
Total local voice	1,577	1,647	(70)	(4)%	4,792	5,029	(237)	(5)%
Long distance:								
Business	110	119	(9)	(8)%	338	349	(11)	(3)%
Mass markets	170	151	19	13%	500	431	69	16%
Wholesale	279	279	—	—	826	762	64	8%
Total long−distance	559	549	10	2%	1,664	1,542	122	8%
Access:								
Business	1	1	—	—	3	4	(1)	(25)%
Mass markets	2	1	1	100%	6	4	2	50%
Wholesale	156	166	(10)	(6)%	492	518	(26)	(5)%
Total access	159	168	(9)	(5)%	501	526	(25)	(5)%
Total voice services	2,295	2,364	(69)	(3)%	6,957	7,097	(140)	(2)%
Data and Internet:								
Business	569	488	81	17%	1,573	1,483	90	6%
Mass markets	189	137	52	38%	535	414	121	29%
Wholesale	310	319	(9)	(3)%	943	962	(19)	(2)%
Total data and Internet	1,068	944	124	13%	3,051	2,859	192	7%
Total wireline services revenue	3,363	3,308	55	2%	10,008	9,956	52	1%
Wireless services revenue	129	132	(3)	(2)%	383	386	(3)	(1)%
Other services revenue	12	9	3	33%	32	30	2	7%
Total operating revenue	$3,504	$3,449	$ 55	2%	$10,423	$10,372	$ 51	0%

Wireline Services Revenue

Voice Services

Local Voice Services. The decrease in local voice services revenue for the three and nine months ended September 30, 2005 in our business and mass markets channels was primarily due to access line losses from competitive pressures and technology substitution partially offset by an increase in Universal Service Fund, or USF, revenue due to both long distance revenue growth and USF rate increases. The decrease in our wholesale channel is primarily due to the sale of our payphone business in August 2004 partially offset by UNE rate and volume increases. In addition, wholesale access lines are decreasing along with sales of UNE−Ps to local competitors as an increasing percentage of competition in our local area is coming from facilities−based competition, including wireless and cable companies.

The following table shows our access lines by channel as of September 30, 2005 and 2004:

	Access Lines*			
	As of September 30,			
	2005	2004	Increase/ (Decrease)	% Change
	(in thousands)			
Business	2,475	2,637	(162)	(6)%
Mass Markets	10,702	11,136	(434)	(4)%
Wholesale	1,756	1,907	(151)	(8)%
Total	14,933	15,680	(747)	(5)%

* We may modify the channel classification of our access lines from time to time in our efforts to better approximate the related revenue channels and better reflect how we manage our business.

Long Distance Services. The increase in long−distance services revenue for the three and nine months ended September 30, 2005 was primarily due to increased in−region long−distance subscribers using increased minutes of use as well as an increase in our monthly recurring charge to our mass markets customers beginning in October 2004. These increases were partially offset by lower rates in our business channel. The wholesale increase for the nine months ended September 30, 2005, which was driven by volume and domestic rate increases, was partially offset by decreased international rates and domestic and international minutes of use in the quarter ended September 30, 2005 as compared to the quarter ended September 30, 2004.

Access Services. Total access services revenue for the three and nine months ended September 30, 2005 continues to be negatively affected by mass markets and business access line losses, as well as our increasing penetration into in−region long−distance (as we became a competitor to our access services customers). The decrease in total access services revenue for the nine months ended September 30, 2005 was partially offset by a favorable settlement of customer billing disputes during the nine months ended September 30, 2005 which reduced the decline by over 50%.

Data and Internet Services

The increase in business data and Internet services revenue for the three and nine months ended September 30, 2005 was driven by an unusually large data CPE arrangement and increased revenue related to private line, wide area network services and federal contracts. The unusually large, non−recurring, data CPE arrangement accounts for $52 million of the total increase in data and Internet services revenue for the three months ended September 30, 2005. We anticipate that this CPE arrangement will continue to positively impact our revenue growth, although to a lesser extent, for the next several quarters as this contract is completed.

The increase in mass markets data and Internet services revenue was primarily driven by a 40% increase in DSL subscribers from 956,000 as of September 20, 2004 to 1,340,000 as of September 30, 2005. This growth

came from continued expansion of service availability and increased penetration of DSL where service is available. We also saw growth across our suite of consumer data and Internet products. We believe this growth was supported by our expanded marketing efforts for our product bundles.

These increases in business and mass markets data and Internet services were partially offset by declines in our wholesale channel due to the termination of our wholesale modem services product in April 2005 and a favorable one−time revenue adjustment recorded during the second quarter of 2004 from a customer bankruptcy.

Wireless Services Revenue

Wireless services revenue remained flat for the three and nine months ended September 30, 2005 compared to the three and nine months ended September 30, 2004. A decrease in subscribers was offset by increased price plan and airtime rates for new subscribers resulting in higher average revenue per subscriber.

Operating Expenses

Operating Expense Trends

Our expenses continue to be impacted by shifting demand due to increased competition and the expansion of our product offerings. These and other factors have led to some of the following trends affecting our operating expenses:

- *Variable expenses.* Expenses associated with our growing product offerings outside of our local market, long−distance products, and products related to wireless tend to be more variable in nature. While our traditional local market product offerings tend to rely upon our embedded cost structure, the mix of products we expect to sell, combined with regulatory and market pricing forces, will continue to pressure operating margins. In addition, facility costs (described below) are not always reduced at the same rate as our revenue declines due to long−term contract commitments.

- *Facility costs.* Facility costs are third−party telecommunications expenses we incur to connect our customers to networks or to end−user product platforms not owned by us. We have benefited in this area from the renegotiation, termination or settlement during 2005, 2004 and 2003 of various service arrangements, from network optimization initiatives and from regulatory approval allowing us to provide long−distance services in our local service area using our own telecommunications equipment, thereby decreasing our reliance on third party providers. These decreases in rates were offset in varying degrees by increases in costs due to increased long−distance traffic, consistent with increases in our in−region, international and wholesale long−distance, as well as data and Internet volumes and new wireless facility costs due to our agreement with a third party wireless provider.

- *Operational efficiencies*. We have continued to evaluate our operating structure and focus and we continue to right−size our workforce in response to changes in the telecommunications environment. Through targeted restructuring plans in prior years and normal employee attrition we have significantly reduced our workforce and employee−related costs while maintaining operational goals through organizational improvements and efficiency improvements.

The following table provides further detail regarding our operating expenses for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)							
Operating expenses:								
Cost of sales:								
Facility costs	$ 697	$ 748	$ (51)	(7)%	$2,056	$ 2,091	$ (35)	(2)%
Network expenses	72	73	(1)	(1)%	197	196	1	1%
Employee−related costs	405	429	(24)	(6)%	1,203	1,316	(113)	(9)%
Other non−employee related costs	338	298	40	13%	929	886	43	5%
Total cost of sales	1,512	1,548	(36)	(2)%	4,385	4,489	(104)	(2)%
Selling, general and administrative:								
Property and other taxes	100	112	(12)	(11)%	310	308	2	1%
Bad debt	27	39	(12)	(31)%	137	145	(8)	(6)%
Restructuring, realignment and severance related costs	26	5	21	nm	40	152	(112)	(74)%
Employee−related costs	401	413	(12)	(3)%	1,218	1,316	(98)	(7)%
Other non−employee related costs	462	692	(230)	(33)%	1,392	1,978	(586)	(30)%
Total selling, general and administrative	1,016	1,261	(245)	(19)%	3,097	3,899	(802)	(21)%
Depreciation	659	659	—	—	1,961	1,974	(13)	(1)%
Amortization of capitalized software and other intangible assets	109	120	(11)	(9)%	346	367	(21)	(6)%
Asset impairments charges	—	34	(34)	nm	—	77	(77)	nm
Total operating expenses	$3,296	$3,622	$ (326)	(9)%	$9,789	$10,806	$ (1,017)	(9)%

nm—percentages greater than 200% and comparisons between positive and negative values or to zero values are considered not meaningful.

Cost of Sales

Cost of sales includes employee−related costs, such as salaries and wages directly attributable to products or services, and benefits, network, facility costs and other non−employee related costs such as real estate, USF charges, materials and supplies, contracted engineering services, computer system support and the cost of CPE sold. Cost of sales as a percentage of revenue decreased 1.7% in the three months ended September 30, 2005 and 1.2% in the nine months ended September 30, 2005 as discussed below.

Facility costs decreased for the three months ended September 30, 2005 as the network optimization initiatives from prior quarters more fully took effect offsetting increased costs related to growth in long distance. The decrease in facility costs for the nine months ended September 30, 2005 was due to cost savings from the renegotiation, termination or settlement of service arrangements, primarily in 2004 and 2005, as well as network optimization initiatives which exceeded the costs associated with increased long−distance volumes, primarily wholesale, and additional wireless costs.

Employee−related costs, such as salaries and wages, benefits and overtime for the three and nine months ended September 30, 2005 decreased primarily due to employee reductions from our prior year restructuring plans as well as a continued focus on containing our employee−related costs and productivity improvements.

Other non−employee related costs increased for the three and nine months ended September 30, 2005 primarily due to $48 million in non−recurring costs associated with the large data CPE arrangement described above, offset by decreased equipment costs related to our wireless and DSL products.

Selling, General and Administrative Expenses

Selling, general and administrative, or SG&A, expenses include employee−related costs such as salaries and wages not directly attributable to products or services, restructuring charges, benefits and sales commissions and other non−employee related costs such as property taxes, bad debt charges, rent for administrative space, advertising, professional service fees, real estate and computer systems support.

Our property and other taxes decreased for the quarter ended September 30, 2005 primarily due to changes in property tax estimates and a successful property tax settlement during 2005. This decrease was offset for the nine months ended September 30, 2005 by a one−time expense reduction from a successful property tax settlement in 2004.

Bad debt expense decreased for the three months ended September 30, 2005 primarily due to a continued trend of improved collection results. Bad debt expense decreased less significantly for the nine months ended September 30, 2005 primarily due to favorable settlements during the second quarter of 2004 from companies emerging from bankruptcy, offset by unfavorable bad debt settlements in the first and second quarters of 2004, as well as the continued trend of improved collection results.

Restructuring, realignment and severance related costs decreased for the nine months ended September 30, 2005 due to a charge of $127 million in the second quarter of 2004 resulting from a planned workforce reduction. Restructuring, realignment and severance related costs increased for the three months ended September 30, 2005 due to the termination of the use of a leased facility.

Employee−related costs, such as salaries and wages, benefits and overtime, for the three and nine months ended September 30, 2005 decreased due to employee reductions from our restructuring efforts, primarily in the second quarter of 2004, and productivity improvements.

Other non−employee related costs decreased for the three and nine months ended September 30, 2005 primarily due to $250 million and $550 million in shareholder litigation reserves recorded in the three and nine months ended September 30, 2004, respectively. This decrease in the three months ended September 30, 2005 was partially offset by an increase in marketing and advertising costs as we expanded our activities into new sales channels and launched our new bundled offerings. The decrease in the nine months ended September 30, 2005 was partially offset by lower vendor disputes.

Combined Pension and Post−retirement Benefits

Our results include a net pension expense, which is the combined cost of our pension and post−retirement healthcare and life insurance plans. We recorded a net pension expense of $45 million and $29 million for the three months ended September 30, 2005 and 2004, respectively, and $178 million and $144 million for the nine months ended September 30, 2005 and 2004, respectively. The net pension expense is a function of the amount of pension and post−retirement benefits earned, interest on projected benefit obligations, amortization of costs and credits from prior benefit changes and the expected return on the assets held in the various plans. The increase in net pension expense for the three and nine month periods ended September 30, 2005 as compared to the three and nine month periods ended September 30, 2004 is primarily due to decreased expected return on investments in the benefit trusts, completion of amortization of the transition asset in 2004, and amortization of actuarial losses caused by the volatile equity markets and lower discount rates partially offset by reductions in expense due to lower discount rates, headcount reduction, benefits of the federal subsidy on prescription drug benefits and plan design and claims trend changes. In addition, we recorded $21 million and $11 million in revisions to our estimates of the actual cost of the net post−retirement expense for the nine months ended September 30, 2005 and 2004, respectively. The net pension expense is allocated to cost of sales and SG&A.

Operating Expenses by Segment

Segment expenses include employee−related costs, facility costs, network expenses and other non−employee related costs such as customer support, collections and marketing. We centrally manage indirect administrative services costs such as finance, information technology, real estate and legal; consequently, these costs are allocated to the other services segment. We evaluate depreciation, amortization, interest expense, interest income, and other (income) expense on a total company basis. As a result, these charges are not allocated to any segment. Similarly, we do not include impairment charges in the segment results. Our CODM regularly reviews the results of operations at a segment level to evaluate the performance of each segment and allocate capital resources based on segment income.

Wireline Services Expenses

The following table sets forth wireline expenses for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)							
Wireline expenses:								
Facility costs	$ 619	$ 698	$ (79)	(11)%	$1,820	$2,014	$ (194)	(10)%
Network expenses	70	67	3	4%	190	181	9	5%
Bad debt	15	30	(15)	(50)%	98	113	(15)	(13)%
Restructuring, realignment and severance related costs	2	4	(2)	(50)%	12	90	(78)	(87)%
Employee−related costs	606	642	(36)	(6)%	1,805	1,968	(163)	(8)%
Other non−employee related costs	366	313	53	17%	1,018	990	28	3%
Total wireline expenses	$1,678	$1,754	$ (76)	(4)%	$4,943	$5,356	$ (413)	(8)%

Wireline operating expenses represent 66% and 64% of total segment expenses for the nine months ended September 30, 2005 and 2004, respectively, and decreased primarily due to decreased facility costs achieved through network optimization initiatives and the renegotiation, termination or settlement of services arrangements, reduced employee−related costs as a result of our restructuring and reduced restructuring and severance related costs offset by the cost associated with the large data CPE arrangement mentioned above.

Wireless Services Expenses

The following table sets forth wireless expenses for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)							
Wireless expenses:								
Facility costs	$ 75	$ 47	$ 28	60%	$230	$ 69	$ 161	nm
Wireless equipment	25	38	(13)	(34)%	79	88	(9)	(10)%
Bad debt	12	9	3	33%	40	24	16	67%
Employee−related costs	7	8	(1)	(13)%	27	21	6	29%
Other non−employee related costs	18	45	(27)	(60)%	70	126	(56)	(44)%
Total wireless expenses	$137	$147	$ (10)	(7)%	$446	$328	$ 118	36%

nm—percentages greater than 200% and comparisons between positive and negative values or to zero values are considered not meaningful.

The increase in facility costs in our wireless expenses is primarily due to facility costs associated with our customers who previously received their services on our network and whose services we now provide through a third party. As a result of this transition, beginning in the third quarter of 2004, we have realized some savings in depreciation and other non−employee related costs. We expect our facility costs to increase as our subscriber base and usage increases.

Other Services Expenses

Other services expenses include unallocated corporate expenses for direct services such as finance, information technology, legal, real estate, marketing services and human resources, which we centrally manage. The following table sets forth additional expense information as to the composition of other services expenses for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)							
Other services expenses:								
Property and other taxes	$100	$112	$ (12)	(11)%	$ 309	$ 307	$ 2	1%
Real estate costs	110	106	4	4%	314	319	(5)	(2)%
Restructuring, realignment and severance related costs	24	1	23	nm	26	62	(36)	(58)%
Employee−related costs	193	191	2	1%	591	641	(50)	(8)%
Other non−employee related *	286	498	(212)	(43)%	853	1,376	(523)	(38)%
Total other services expenses	$713	$908	$ (195)	(21)%	$2,093	$2,705	$ (612)	(23)%

nm—percentages greater than 200% and comparisons between positive and negative values or to zero values are considered not meaningful.

* Certain immaterial expenses for facility costs, bad debt and network expenses in the other services segment are recorded in other non−employee related costs.

The decrease in other services expenses for the three and nine months ended September 30, 2005 was primarily driven by $300 million and $250 million in litigation reserve recorded in the second quarter and third quarters of 2004, respectively. Restructuring, realignment and severance related costs decreased for the nine months ended September 30, 2005 because of our significant restructuring charges recorded in the second quarter of 2004.

Other Consolidated Results

Other Expense—Net

Other expense—net generally includes interest expense net of capitalized interest, investment write−downs, gains and losses on the sales of investments and fixed assets, gains and losses on early retirement of debt and changes in derivative instrument market values.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)							
Interest expense—net	$384	$374	$ 10	3%	$1,145	$1,164	$ (19)	(2)%
(Gain) loss on early retirement of debt—net	(11)	6	(17)	nm	32	1	31	nm
Gain on sale of assets	—	—	—	—	(257)	—	(257)	nm
Other (income) expense—net	(20)	34	(54)	nm	(35)	(59)	24	41%
Total other expense—net	$353	$414	$ (61)	(15)%	$ 885	$1,106	$ (221)	(20)%

nm—percentages greater than 200% and comparisons between positive and negative values or to zero values are considered not meaningful.

Interest expense—net. The decrease for the nine months ended September 30, 2005 is primarily due to the recognition of $22 million of unamortized debt issuance costs associated with the early termination of the previous credit facility included in the interest expense for the three months ended March 31, 2004.

(Gain) loss on early retirement of debt. In the quarter ended September 30, 2005, we recorded a gain of $11 million from debt for equity exchanges. In the quarter ended June 30, 2005, we recorded a loss of $55 million from cash tender offers for debt securities and a prepayment of approximately $1.5 billion in debt and a gain of $12 million from a debt for equity exchange. These items are further discussed in Note 4—Borrowings to our condensed consolidated financial statements in Item 1 of Part I of this report.

Gain on sale of assets. On July 1, 2004, we entered into an agreement with Verizon Wireless under which Verizon Wireless agreed to acquire all of our PCS licenses and substantially all of our related wireless network assets. We closed this transaction in the first quarter of 2005.

Other(income) expense—net. The increase for the three months ended September 30, 2005 is primarily due to tax interest and penalty amounts recorded in 2004 and additional interest income recorded in 2005 as compared to 2004. Other (income) expense—net decreased for the nine months ended September 30, 2005 primarily due to a $60 million gain in 2004 from the settlement of a customer emerging from bankruptcy.

Income Taxes

For the three and nine months ended September 30, 2004, our income tax benefit was offset by a full deferred tax asset valuation allowance. As discussed further in Note 7—Income Tax Provision we incurred a charge to tax expense of $136 million in the second quarter of 2004, primarily related to our CLAS tax strategy.

Liquidity and Capital Resources

Near−Term View

Our working capital, or the amount by which our current assets exceed our current liabilities, was $822 million as of September 30, 2005, as compared to our working capital deficit, or the amount by which our current liabilities exceed our current assets, of $68 million as of December 31, 2004. Our working capital has improved primarily as a result of $1.6 billion in cash provided by our operating activities. The cash provided by operating activities was offset in part by property, plant and equipment purchases of $1.1 billion. The increase in working capital was also positively impacted by the receipt of cash for the sale of our PCS licenses and substantially all of our related wireless network assets for $418 million in the first quarter of 2005.

We believe that our cash on hand together with our short−term investments and our cash flows from operations should be sufficient to meet our cash needs through the next twelve months. However, if we become subject to significant judgments, settlements and/or tax payments, such as the potential CLAS obligation, as further discussed in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report, we could be required to make significant payments that we do not have the resources to make. The magnitude of any settlements or judgments resulting from these actions could materially and adversely affect our ability to meet our debt obligations and our financial condition, potentially impacting our credit ratings, our ability to access capital markets and our compliance with debt covenants. In addition, the magnitude of any settlements or judgments may cause us to draw down significantly on our cash balances, which might force us to obtain additional financing or explore other methods to generate cash. Such methods could include issuing additional securities or selling assets.

To the extent that our EBITDA (as defined in our debt covenants) is reduced by cash judgments or settlements, our debt to consolidated EBITDA ratios under certain debt agreements will be adversely affected. This could reduce our liquidity and flexibility due to potential restrictions on drawing on our line of credit and potential restrictions on incurring additional debt under certain provisions of our debt agreements. In addition, on October 21, 2005, Qwest Services Corporation ("QSC") replaced its pre−existing three−year $750 million revolving credit facility with a new five−year $850 million revolving credit facility (the "2005 QSC Credit Facility") with similar terms. The 2005 QSC Credit Facility contains various limitations, including a restriction on using any proceeds from the facility to pay settlements or judgments relating to the investigation and securities actions discussed in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report.

The wireline services segment provides over 95% of our total operating revenue with the balance attributed to our wireless services and other services segments and the wireline services segment also provides all of the consolidated cash flows from operations. Cash flows used in operations of our wireless services segment are not expected to be significant in the near term. Cash flows used in operations of our other services segment are significant; however, we expect that the cash flows provided by the wireline services segment will be sufficient to fund these operations in the near term.

We expect that our 2005 capital expenditures will be slightly lower than our 2004 levels, with the majority being used in our wireline services segment.

During the nine months ended September 30, 2005, we have taken the following measures to improve our near−term financial position:

- On May 11, 2005, we commenced registered exchange offers for QCII's Floating Rate Senior Notes due 2009, 7 1/4% Senior Notes due 2011, and 7 1/2% Senior Notes due 2014 (the "2009, 2011 and 2014 QCII Notes"), and QSC's 13.50% Senior Subordinated Secured Notes due 2010 and 14.00% Senior Subordinated Secured Notes due 2014 (the "2010 and 2012 QSC Notes") pursuant to the registration rights agreements that we entered into in connection with the issuance of these outstanding notes. We completed the registered exchange offer for the 2009, 2011 and 2014 QCII Notes and for the 2010 and 2014 QSC Notes on June 16, 2005 and June 17, 2005, respectively.

- On May 27, 2005, Qwest Corporation ("QC") commenced registered exchange offers for its 7.875% Notes due 2011 (the "2011 QC Notes") and its 8 7/8% Notes due 2012 (the "2012 QC Notes") pursuant to the registration rights agreements that it entered into in connection with the issuance of these outstanding notes. QC completed the registered exchange offers for the 2011 QC Notes and 2012 QC Notes on July 5, 2005.

- On June 7, 2005, we commenced cash tender offers for the purchase of up to $250 million aggregate principal amount of QC's 6 5/8% Notes due 2005 (the "QC 6 5/8% Notes"), up to $150 million aggregate principal amount of QC's 6 1/8% Notes due November 15, 2005 (the "QC 6 1/8% Notes"), and up to $504 million aggregate principal amount of QSC's 13.00% Senior Subordinated Secured Notes due 2007 (the "QSC 13.00% Notes"). We received and accepted tenders of approximately $211 million face amount of QC 6 5/8% Notes for $216 million, including accrued interest of $4 million, approximately $129 million face amount of QC 6 1/8% Notes for $131 million, including accrued interest of $1 million, and approximately $452 million face amount of QSC 13.00% Notes for $501 million, including accrued interest of $1 million. On June 20 and June 23, 2005, QC pre−paid an aggregate of $750 million face amount of the $1.25 billion floating rate tranche of its senior term loan that matures in June 2007 for $775 million, including accrued interest of $2 million. These transactions resulted in a loss of $55 million.

- On June 17, 2005, we issued a total of $1.75 billion aggregate principal amount of new debt consisting of $1.15 billion in notes issued by QC, including $750 million of Floating Rate Notes due 2013 with interest at LIBOR plus 3.25% (7.14% as of September 30, 2005), $400 million of 7.625% Notes due 2015, and $600 million of 7 1/2% Senior Notes due 2014—Series B, issued by QCII.

- On June 23, 2005, QCII issued an additional $200 million aggregate principal amount of its 7 1/2% Senior Notes due 2014—Series B, bringing the total principal amount outstanding of such series to $800 million.

- On July 15, 2005, we paid the remaining $179 million of Qwest Capital Funding, Inc.'s ("QCF") 6 1/4% Notes due July 15, 2005 that matured on that date.

- In August 2005, QCII filed a universal shelf registration statement with the Securities and Exchange Commission, or SEC. Under this registration statement, QCII may issue up to $2.5 billion of securities in one or more offerings. As of September 30, 2005, QCII had not issued any securities under this registration statement. QCII's ability and willingness to issue securities pursuant to this registration statement will depend on market conditions at the time of any such desired offering.

- On September 15, 2005, we paid the remaining $39 million of the QC 6 5/8% Notes that matured on that date.

- During the nine months ended September 30, 2005, we exchanged approximately $167 million of existing QCF notes plus $2 million of accrued interest for approximately 38 million shares of our common stock with an aggregate value of $145 million at the time of issuance. The effective share price for the exchange transactions ranged from $4.03 per share to $4.98 per share (principal and accrued interest divided by the number of shares issued). The trading prices for our shares at the time the exchange transactions were consummated ranged from $3.53 per share to $4.09 per share. As a result, we recorded a gain of $23 million on debt extinguishments during the nine month period ended September 30, 2005. These gains are included in other expense (income) in our condensed consolidated statements of operations.

We continue to look for opportunities to improve our liquidity and our capital structure by reducing debt and interest expense and extending maturities. We expect that at any time we deem conditions favorable we will attempt to improve our capital structure by accessing the debt or other markets or through the use of our cash in order to improve our leverage and increase our financial flexibility in a manner designed to create positive economic value.

Long−Term View

While we currently have a working capital surplus, we have historically operated with a working capital deficit as a result of our highly leveraged position. We believe that cash provided by operations, combined with our current cash position and continued access to capital markets to refinance our current portion of debt, should allow us to meet our cash requirements for the foreseeable future.

In addition to our periodic need to obtain financing in order to meet our debt obligations as they come due, we may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of assets) if cash provided by operations is insufficient, if revenue and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase or if we become subject to significant judgments, settlements or tax payments as further discussed in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report. In the event of an adverse outcome in one or more of these matters, we could be required to make significant payments that we do not have the resources to make. The magnitude of any settlements or judgments resulting from these actions could materially and adversely affect our ability to meet our debt obligations and our financial condition, potentially impacting our credit ratings, our ability to access capital markets and our compliance with debt covenants. In addition, the magnitude of any settlements or judgments may cause us to draw down significantly on our cash balances, which might force us to obtain additional financing or explore other methods to generate cash. Such methods could include issuing additional securities or selling assets.

The 2005 QSC Credit Facility makes available to us $850 million of additional credit subject to certain restrictions as described below, and is currently undrawn. This facility has a cross payment default provision, and this facility and certain other debt issues also have cross acceleration provisions. When present, such provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. These provisions generally provide that a cross default under these debt instruments could occur if:

- we fail to pay any indebtedness when due in an aggregate principal amount greater than $100 million;
- any indebtedness is accelerated in an aggregate principal amount greater than $100 million ($25 million in the case of one of the debt instruments); or
- judicial proceedings are commenced to foreclose on any of our assets that secure indebtedness in an aggregate principal amount greater than $100 million.

Upon such a cross default, the creditors of a material amount of our debt may elect to declare that a default has occurred under their debt instruments and to accelerate the principal amounts due such creditors. Cross acceleration provisions are similar to cross default provisions, but permit a default in a second debt instrument to be declared only if in addition to a default occurring under the first debt instrument, the indebtedness due under the first debt instrument is actually accelerated. In addition, the 2005 QSC Credit Facility contains various limitations, including a restriction on using any proceeds from the facility to pay settlements or judgments relating to the investigation and securities actions discussed in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report.

Letters of Credit

We maintain letter of credit arrangements with various financial institutions for up to $87 million. At September 30, 2005, we had outstanding letters of credit of approximately $85 million.

Historical View

	Nine Months Ended September 30,			
	2005	2004	Increase/ (Decrease)	% Change
	(Dollars in millions)			
Cash Flows:				
Provided by operating activities	$1,588	$ 1,609	$ (21)	(1)%
Used for investing activities	(442)	(1,444)	1,002	69%
Provided by (used for) financing activities	14	(217)	231	nm
Net increase (decrease) in cash and cash equivalents	$1,160	$ (52)	$ 1,212	nm

nm—percentages greater than 200% and comparisons between positive and negative values or to zero values are considered not meaningful.

Operating Activities

During the nine months ended September 30, 2005 our primary source of funds was cash from operating activities, which decreased 1% as compared to the nine months ended September 30, 2004.

The following significant items netted to result in cash provided by operating activities remaining flat at approximately $1.6 billion:

- Income related cash flows increased by $983 million primarily driven by reductions in costs as revenue remained flat.

- Cash flow from changes in operating assets and liabilities decreased by $1,004 million driven by an increase of $251 million in collections of receivables in 2004, $550 million of accruals of non−cash items for tax and legal reserves in 2004 and greater utilization of approximately $120 million of prepaid and other assets in 2004.

Investing Activities

We used approximately $1 billion less cash for our investing activities during the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. As compared to 2004, during 2005, our capital expenditures decreased $249 million, or 18%, due to decreased DSL deployment and lower local network infrastructure spending due, in part, to our re−use programs as well as from a one−time adjustment related to a $33 million sales and use tax refund received in the second quarter of 2005. We expect that our 2005 capital expenditures will be slightly lower than our 2004 levels. In addition, we received $418 million from the sale of our wireless assets, as well as $333 million more in net investment proceeds for the nine months ended September 30, 2005 as compared to net investment proceeds for the nine months ended September 30, 2004.

Financing Activities

Cash provided by financing activities increased $231 million for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004 due to our 2005 borrowing and repayment activities. At September 30, 2005 we were in compliance with all provisions or covenants of our borrowings. See Note 8—Borrowings to our consolidated financial statements in Part 2, Item 8 of our Annual Report on Form 10−K for the year ended December 31, 2004, or our 2004 Form 10−K, for a discussion of our exchange transactions and for additional information regarding the covenants of our existing debt instruments.

Credit ratings

The table below summarizes our long−term debt ratings at September 30, 2005 and December 31, 2004:

	September 30, 2005			December 31, 2004		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Corporate rating/Sr. Implied rating	B2	BB−	NA	B2	BB−	NA
Qwest Corporation	Ba3	BB−	BB	Ba3	BB−	BB
Qwest Services Corporation	Caa1	B	BB/B+	Caa1	B	B+
Qwest Communications Corporation	NR	NR	B−	NR	B	B
Qwest Capital Funding, Inc.	Caa2	B	B−	Caa2	B	B
Qwest Communications International Inc.*	B3/Caa1/Caa2	B	B+/B−	B3/Caa1/Caa2	B	B+/B

NA = Not applicable
NR = Not rated

* = QCII notes have various ratings

In October 2005, S&P raised its rating on the long−term debt of Qwest Corporation to BB from BB− and Moody's placed all of Qwest's rating on review for possible upgrades.

Debt ratings by the various rating agencies reflect each agency's opinion of the ability of the issuers to repay debt obligations as they come due. In general, lower ratings result in higher borrowing costs and/or impaired ability to borrow. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

Given our current credit ratings, as noted above, our ability to raise additional capital under acceptable terms and conditions may be negatively impacted.

Risk Management

We are exposed to market risks arising from changes in interest rates. The objective of our interest rate risk management program is to manage the level and volatility of our interest expense. We may employ derivative financial instruments to manage our interest rate risk exposure. We may also employ financial derivatives to hedge foreign currency exposures associated with particular debt.

Approximately $2 billion of floating−rate debt was exposed to changes in interest rates as of September 30, 2005 and December 31, 2004. This exposure is linked to LIBOR. A hypothetical increase of 100 basis points in LIBOR would increase annual pre−tax interest expense by $20 million in 2005. As of September 30, 2005 and December 31, 2004, we had approximately $511 million and $579 million, respectively, of long−term fixed rate debt obligations maturing in the following 12 months. We are exposed to changes in interest rates at any time that we choose to refinance this debt. A hypothetical increase of 100 or 200 basis points in the interest rates on any refinancing of the current portion of long−term debt would not have a material effect on our earnings.

As of September 30, 2005, we had $2.25 billion invested in money market instruments and $490 million invested in auction rate securities. As interest rates change, so will the interest income derived from these instruments. Assuming that these investment balances were to remain constant, a hypothetical increase of 100 basis points in money market rates would increase annual interest income by $27 million. As of September 30, 2005 we also had short−term investments of $90 million; however, the income from these investments is not subject to interest rate volatility due to their fixed rate structure.

SPECIAL NOTE REGARDING FORWARD−LOOKING STATEMENTS

This Form 10−Q contains or incorporates by reference forward−looking statements about our financial condition, results of operations and business. These statements include, among others:

- statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as increased revenue, decreased expenses and avoided expenses and expenditures; and

- statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference to other documents we will file with the SEC. You can find many of these statements by looking for words such as “believes,” “expects,” “anticipates,” “estimates,” or similar expressions used in this report or incorporated by reference in this report.

These forward−looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. Some of these risks are described below under “Risk Factors.” These risk factors should be considered in connection with any subsequent written or oral forward−looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts’ expectations or estimates or to release publicly any revisions to any forward−looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events. Further, the information contained in this document is a statement of our intention as of the date of this filing and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

RISK FACTORS

Risks Affecting Our Business

We face pressure on profit margins as a result of increasing competition, including product substitution, which could adversely affect our operating results and financial performance.

We compete in a rapidly evolving and highly competitive market, and we expect competition to intensify. We have faced greater competition in our core local business from cable companies, wireless providers (including ourselves), facilities−based providers using their own networks as well as those leasing parts of our network (unbundled network elements), and resellers. Regulatory developments have generally increased competitive pressures on our business, such as the November 2003 decision of the Federal Communications Commission, or FCC, allowing for number portability from wireline to wireless phones.

Due to these and other factors, we believe competitive telecommunications providers are no longer hindered by historical barriers to entry. As a result, we are seeking to distinguish ourselves from our competitors through a number of customer service initiatives. These initiatives include expanded product bundling, simplified billing, improved customer support and other ongoing measures. However, these initiatives are new and unproven. We may not have sufficient resources to distinguish our service levels from those of our competitors, and we may not be successful in integrating our product offerings, especially products for which we act as a reseller, such as wireless services and the video services of a satellite provider. Even if we are successful, these initiatives may not be sufficient to offset our continuing loss of access lines. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report for more information regarding trends affecting our access lines.

We have also begun to experience and expect further increased competitive pressure from telecommunications providers either consolidating with other providers or reorganizing their capital structure to more effectively compete against us. As a result of these increased competitive pressures, we have been and may continue to be forced to respond with lower profit margin product offerings and pricing schemes in an effort to retain and attract customers. These pressures could adversely affect our operating results and financial performance.

Rapid changes in technology and markets could require substantial expenditure of financial and other resources in excess of contemplated levels, and any inability to respond to those changes could reduce our market share.

The telecommunications industry is experiencing significant technological changes, and our ability to execute our business plans and compete depends upon our ability to develop new products and accelerate the deployment of advanced new services, such as broadband data, wireless services, video services and VoIP services. The development and deployment of new products could require substantial expenditure of financial and other resources in excess of contemplated levels. If we are not able to develop new products to keep pace with technological advances, or if such products are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to keep up with changes in technology and markets could also adversely affect the trading price of our securities and our ability to service our debt.

If we are not able to stem the loss of our access lines or grow other areas of our business to compensate for these losses, our revenue will continue to decline.

Our revenue decline over the past few years is largely attributable to our continued loss of access lines, which is a result of increased competition and technology substitution (such as wireless and cable substitution for wireline telephony). We are seeking to improve our competitive position through product bundling and other sales and marketing initiatives. However, we may not be successful in these efforts. If we are not successful and our revenue declines materially without corresponding cost reductions, this will cause a material deterioration to our results of operations and financial condition and adversely affect our ability to service debt and pay other obligations.

Risks Relating to Legal and Regulatory Matters

Any adverse outcome of the major lawsuits pending against us or the investigation currently being conducted by the U.S. Attorney's Office could have a material adverse impact on our financial condition and operating results, on the trading price of our debt and equity securities and on our ability to access the capital markets.

The Department of Justice investigation and the securities actions described in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report present material and significant risks to us. In many of the securities actions, the plaintiffs seek tens of millions of dollars in damages or more, and in the putative class action lawsuit for which we have entered into a memorandum of understanding regarding settlement, lead counsel for the plaintiffs has indicated that plaintiffs will seek damages in the tens of billions of dollars. The outcomes in any cases which have been or may be brought by the U.S. Attorney's Office or the SEC against former officers or employees may have a negative impact on the outcome of certain of these legal actions.

Further, the size, scope and nature of the restatements of our consolidated financial statements for 2001 and 2000, which are described in our Annual Report on Form 10−K/A for the fiscal year ended December 31, 2002 (our "2002 Form 10−K/A"), affect the risks presented by these investigations and actions, as these matters involve, among other things, our prior accounting practices and related disclosures. Plaintiffs in certain of the securities actions have alleged our restatement of items in support of their claims. We can give no assurance as to the impacts on our financial results or financial condition that may ultimately result from all of these matters. During 2003 and 2004, we recorded reserves in our financial statements totaling $750 million in connection with the investigations and securities actions. The $750 million reserve was reduced by $125 million in December 2004 as a result of a payment in that amount in connection with a settlement in October 2004 of the SEC's investigation of us. The remaining reserve amount represents a final payment to be made in connection with the SEC settlement in the amount of $125 million, $400 million that we expect to pay to settle the consolidated securities action as described in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report (offset by a $10 million payment to us from Arthur Andersen LLP), and the minimum estimated amount of loss we believe is probable with respect to the other securities actions. However, the ultimate outcomes of these matters are still uncertain and there is a significant possibility that the amount of loss we ultimately incur could be substantially more than the reserve we have provided. If the recorded reserve that will remain after we have paid the amount owed under the SEC settlement and the settlement of the consolidated securities action is insufficient to cover these matters, we will need to record additional charges to our statement of operations in future periods.

An adverse outcome with respect to the U.S. Attorney's Office investigation could have a material and significant adverse impact upon us. Additionally, other than the consolidated securities action which is the subject of a memorandum of understanding regarding settlement, we continue to defend against the remaining securities actions vigorously and are currently unable to provide any estimate as to the timing of the resolution of these remaining actions. Any settlement of or judgment in one or more of these actions substantially in excess of our recorded reserves could have a significant impact on us, and we can give no assurance that we will have the resources available to pay any such judgment. The magnitude of any settlement or judgment resulting from these actions could materially and adversely affect our ability to meet our debt obligations and our financial condition, potentially impacting our credit ratings, our ability to access capital markets and our compliance with debt covenants. In addition, the magnitude of any settlement or judgment may cause us to draw down significantly on our cash balances, which might force us to obtain additional financing or explore other methods to generate cash. Such methods could include issuing additional securities or selling assets.

Further, given the size and nature of our business, we are subject from time to time to various other lawsuits which, depending on their outcome, may have a material adverse effect on our financial position. Thus, we can give no assurances as to the impacts on our financial results or financial condition as a result of these matters.

Continued scrutiny of our financial disclosures could reduce investor confidence and cause the trading price for our securities to decline.

As a result of our past accounting issues and the increased scrutiny of financial disclosures, investor confidence in us has suffered and could suffer further. As discussed earlier, the U.S. Attorney's Office is currently conducting an investigation of, without limitation, transactions related to the various adjustments and

restatements described in our 2002 Form 10−K/A, transactions between us and certain of our vendors and certain investments in the securities of those vendors by individuals associated with us, and certain prior disclosures made by us. Although, as described above, we have entered into a settlement with the SEC concerning its investigation of us, in March 2005, the SEC filed suit against our former Chief Executive Officer, Joseph Nacchio, two of our former Chief Financial Officers, Robert Woodruff and Robin Szeliga, and other former officers and employees. In February 2005, a criminal indictment was returned against Marc Weisberg, a former Qwest executive, in federal district court in Colorado. The indictment alleges that Mr. Weisberg violated federal laws by seeking and obtaining investment opportunities for himself and others in vendors that did or sought to do business with Qwest. In June 2005, Ms. Szeliga reached an agreement in principle with the SEC staff to settle the actions against her alleging civil fraud and other claims and in July 2005, she pleaded guilty to a criminal charge of insider trading. Other former officers or employees have entered into settlements with the SEC involving civil fraud or other claims in which they neither admitted nor denied the allegations against them. Civil and criminal trials in the matters discussed in this paragraph could take place in the future. Evidence that is introduced at such trials and in other matters may result in further scrutiny by governmental authorities and others.

The existence of this heightened scrutiny could adversely affect investor confidence and cause the trading price for our securities to decline.

We operate in a highly regulated industry, and are therefore exposed to restrictions on our manner of doing business and a variety of claims relating to such regulation.

Our operations are subject to extensive federal regulation, including the Communications Act of 1934, as amended, and FCC regulations thereunder. We are also subject to the applicable laws and regulations of various states, including regulation by PUCs and other state agencies. Federal laws and FCC regulations generally apply to regulated interstate telecommunications (including international telecommunications that originate or terminate in the United States), while state regulatory authorities generally have jurisdiction over regulated telecommunications services that are intrastate in nature. The local competition aspects of the Telecommunications Act of 1996 are subject to FCC rulemaking, but the state regulatory authorities play a significant role in implementing those FCC rules. Generally, we must obtain and maintain certificates of authority from regulatory bodies in most states where we offer regulated services and must obtain prior regulatory approval of rates, terms and conditions for our intrastate services, where required. Our businesses are subject to numerous, and often quite detailed, requirements under federal, state and local laws, rules and regulations. Accordingly, we cannot ensure that we are always in compliance with all these requirements at any single point in time. The agencies responsible for the enforcement of these laws, rules and regulations may initiate inquiries or actions based on their own perceptions of our conduct, or based on customer complaints.

Regulation of the telecommunications industry is changing rapidly, and the regulatory environment varies substantially from state to state. Recently a number of state legislatures and state PUCs have adopted reduced or modified forms of regulation. This is generally beneficial because it reduces regulatory costs and regulatory filing and reporting requirements. These changes also generally allow more flexibility for new product introduction and enhance our ability to respond to competition. At the same time, some of the changes, occurring at both the state and federal level, may have the potential effect of reducing some regulatory protections, including having commission−approved tariffs that include rates, terms and conditions. These changes may necessitate the need for customer−specific contracts to address matters previously covered in our tariffs. All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

We monitor our compliance with federal, state and local regulations governing the discharge and disposal of hazardous and environmentally sensitive materials, including the emission of electromagnetic radiation. Although we believe that we are in compliance with such regulations, any such discharge, disposal or emission might expose us to claims or actions that could have a material adverse effect on our business, financial condition and operating results.

Risks Affecting Our Liquidity

Our high debt levels, the restrictive terms of our debt instruments and the substantial litigation pending against us pose risks to our viability and may make us more vulnerable to adverse economic and competitive conditions, as well as other adverse developments.

We are highly leveraged. As of September 30, 2005, our consolidated debt was approximately $17.2 billion. A considerable amount of our debt obligations comes due over the next few years. While we currently believe we will have the financial resources to meet our obligations when they come due, we cannot anticipate what our future condition will be. We may have unexpected costs and liabilities and we may have limited access to financing.

In addition to our periodic need to obtain financing in order to meet our debt obligations as they come due, we may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of assets) if cash provided by operations does not improve, if revenue and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase or if we become subject to significant judgments and/or settlements as further discussed in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report and in "Liquidity and Capital Resources" above. We can give no assurance that such additional financing will be available on terms that are acceptable.

The 2005 QSC Credit Facility has a cross payment default provision, and the 2005 QSC Credit Facility and certain of our other debt issues have cross acceleration provisions. When present, such provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings. In addition, the 2005 QSC Credit Facility contains various limitations, including a restriction on using any proceeds from the facility to pay settlements or judgments relating to the investigation and securities actions discussed in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report.

Our high debt levels could adversely impact our credit ratings. Additionally, the degree to which we are leveraged may have other important limiting consequences, including the following:

- placing us at a competitive disadvantage as compared with our less leveraged competitors, including some who have significantly reduced their debt through a bankruptcy proceeding;
- making us more vulnerable to the current or future downturns in general economic conditions or in any of our businesses;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- impairing our ability to obtain additional financing in the future for working capital, capital expenditures or general corporate purposes.

We may be unable to significantly reduce the substantial capital requirements or operating expenses necessary to continue to operate our business, which may in turn affect our operating results.

We anticipate that our capital requirements relating to maintaining and routinely upgrading our network will continue to be significant in the coming years. We may be unable to further significantly reduce our capital requirements or operating expenses, even if revenue is decreasing. We also may be unable to significantly reduce the operating expenses associated with our future contractual cash obligations, including future purchase commitments, which may in turn affect our operating results. Such non−discretionary capital outlays and operating expenses may lessen our ability to compete with other providers who face less significant spending requirements. While we believe that our current level of capital expenditures will meet both our maintenance and our core growth requirements going forward, this may not be the case if circumstances underlying our expectations change.

If we are unable to renegotiate a significant portion of certain future purchase commitments, we may suffer related losses.

As of December 31, 2004, our aggregate future purchase commitments totaled approximately $2.75 billion. We entered into these commitments, which obligate us to purchase network services and capacity, hardware or advertising from other vendors, with the expectation that we would use these commitments in association with projected revenue. In certain cases, as a result of changes in strategy or other factors, we no longer generate the revenue we originally projected to be associated with these commitments. Because we are in a rapidly changing industry, we always face the risk of other contracts becoming similarly underutilized. If we are unable to restructure or renegotiate our underutilized contracts (both existing and future) in a profitable manner, we could suffer from substantial ongoing expenses without associated revenue to offset the expenses related to these arrangements. In addition, we may incur losses in connection with these restructurings and renegotiations.

Declines in the value of pension plan assets could require us to provide significant amounts of funding for our pension plan.

While we do not expect to be required to make material cash contributions to our defined benefit pension plan in the near term based upon current actuarial analyses and forecasts, a significant decline in the value of pension plan assets in the future or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding. As a result, we may be required to fund our benefit plans with cash from operations, perhaps by a material amount. As of December 31, 2004, our plan assets exceed our accumulated benefit obligation by $475 million. Recognition of an additional minimum liability caused by changes in plan assets or measurement of the accumulated benefit obligation could have a material impact on our consolidated balance sheet. As an example, if our accumulated benefit obligation exceeded plan assets in the future, the impact would be to eliminate our prepaid pension asset, which was $1.192 billion as of December 31, 2004, and record a pension liability for the amount that our accumulated benefit obligation exceeds plan assets with a corresponding charge to other comprehensive loss in stockholder’s deficit. Alternatively, we could make a voluntary contribution to the plan so that the plan assets exceed the accumulated benefit obligation.

If we pursue and are involved in any business combinations, our financial condition could be adversely affected.

On a regular and ongoing basis, we review and evaluate other businesses and opportunities for business combinations that would be strategically beneficial. As a result, we may be involved in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our financial condition (including short−term or long−term liquidity) or short−term or long−term results of operations.

Should we make an error in judgment when identifying an acquisition candidate, or should we fail to successfully integrate acquired operations, we will likely fail to realize the benefits we intended to derive from the acquisition and may suffer other adverse consequences. Acquisitions involve a number of other risks, including:

- incurrence of substantial transaction costs;
- diversion of management’s attention from operating our existing business;
- charges to earnings in the event of any write−down or write−off of goodwill recorded in connection with acquisitions;
- depletion of our cash resources or incurrence of additional indebtedness to fund acquisitions;
- an adverse impact on our tax position; and
- assumption of liabilities of an acquired business (including unforeseen liabilities).

We can give no assurance that we will be able to successfully complete and integrate strategic acquisitions.

Other Risks Relating to Qwest

If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies, the accuracy of our financial statements and related disclosures could be affected.

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States, or GAAP, requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are described in our 2004 Form 10−K, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies or different assumptions are used in the future, such events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

Taxing authorities may determine we owe additional taxes relating to various matters, which could adversely affect our financial results.

As a significant taxpayer, we are subject to frequent and regular audits from the Internal Revenue Service, or IRS, as well as from state and local tax authorities. These audits could subject us to risks due to adverse positions that may be taken by these tax authorities. Please see Note 10—Commitments and Contingencies—Other Matters to our condensed consolidated financial statements in Item 1 of Part I of this report for examples of legal proceedings involving some of these adverse positions. For example, in the fourth quarter of 2004, Qwest received notices of proposed adjustments on several significant issues for the 1998−2001 audit cycle. Additionally, the IRS indicated in January 2005 that it is reviewing Qwest's tax treatment of the sale of its DEX directory publishing business in the 2002−2003 audit cycle.

Because prior to 1999 Qwest was a member of affiliated groups filing consolidated U.S. federal income tax returns, we could be severally liable for tax examinations and adjustments not directly applicable to current members of the Qwest affiliated group. Tax sharing agreements have been executed between us and previous affiliates, and we believe the liabilities, if any, arising from adjustments to tax liability would be borne by the affiliated group member determined to have a deficiency under the terms and conditions of such agreements and applicable tax law. We have not provided in our financial statements for any liability of former affiliated members or for claims they have asserted or may assert against us.

While we believe our tax reserves adequately provide for the associated tax contingencies, Qwest's tax audits and examinations may result in tax liabilities that differ materially from those we have recorded in our consolidated financial statements. Also, the ultimate outcomes of all of these matters are uncertain, and we can give no assurance as to whether an adverse result from one or more of them will have a material effect on our financial results, including potentially offsetting a significant portion of our existing net operating losses.

If we fail to extend or renegotiate our collective bargaining agreements with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.

We are a party to collective bargaining agreements with our labor unions, which represent a significant number of our employees. In August 2005, we reached agreements with the CWA and the IBEW on new three−year labor agreements. Each of these agreements was ratified by union members and expires on August 16, 2008. The impact of future negotiations, including changes in wages and benefit levels, including, but not limited to, the cost of providing active and post−retirement healthcare, could have a material impact on our financial results.

Although we believe that our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our unions arise, or if our unionized workers engage in a strike or other work stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business.

The trading price of our securities could be volatile.

In recent years, the capital markets have experienced extreme price and volume fluctuations. The overall market and the trading price of our securities may fluctuate greatly. The trading price of our securities may be significantly affected by various factors, including:

- quarterly fluctuations in our operating results;
- changes in investors' and analysts' perception of the business risks and conditions of our business;
- broader market fluctuations; and
- general economic or political conditions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a−15(e) and 15d−15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") as of September 30, 2005. On the basis of this review, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred in the third quarter of 2005 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report is hereby incorporated by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the third quarter of 2005, we issued approximately 22 million shares of our common stock that were not registered under the Securities Act of 1933, as amended, in reliance on an exemption pursuant to Section 3(a)(9) of that Act. These shares of common stock were issued in a number of separately and privately negotiated direct exchange transactions occurring on various dates throughout the quarter for approximately $97 million in face amount of debt issued by Qwest Capital Funding, Inc., a wholly owned subsidiary of Qwest, and guaranteed by Qwest, and $1 million of accrued interest. The effective share price for the exchange transactions ranged from $4.03 per share to $4.86 per share (principal and accrued interest divided by the number of shares issued). The trading prices for our common stock at the time the exchange transactions were consummated ranged from $3.66 per share to $4.09 per share. No underwriters or underwriting discounts or commissions were involved.

ITEM 5. OTHER INFORMATION

On October 31, 2005, Qwest and the putative class representatives in *In re Qwest Communications International Inc. Securities Litigation* entered into a memorandum of understanding to settle that case, as described more fully under the heading “Settlement of consolidated securities action” in Note 10—Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report. Such information is hereby incorporated by reference.

ITEM 6. EXHIBITS

Exhibits filed for Qwest through the filing of this Form 10−Q:

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

Exhibit Number	Description
(2.1)	Agreement and Plan of Merger, dated as of July 18, 1999 between U S WEST, Inc. and Qwest (incorporated by reference to Qwest’s Form S−4/A filed on August 13, 1999, File No. 333−81149).
(3.1)	Restated Certificate of Incorporation of Qwest (incorporated by reference to Qwest’s Registration Statement on Form S−4/A, filed September 17, 1999, File No. 333−81149).
(3.2)	Certificate of Amendment of Restated Certificate of Incorporation of Qwest (incorporated by reference to Qwest’s Quarterly Report on Form 10−Q for the quarter ended June 30, 2004, File No. 001−15577).
(3.3)	Amended and Restated Bylaws of Qwest, adopted as of July 1, 2002 and amended as of May 25, 2004 (incorporated by reference to Qwest’s Quarterly Report on Form 10−Q for the quarter ended June 30, 2004, File No. 001−15577).
(4.1)	Indenture, dated as of April 15, 1990, by and between Mountain States Telephone and Telegraph Company and The First National Bank of Chicago (incorporated by reference to Qwest Corporation’s Annual Report on Form 10−K for the year ended December 31, 2002, File No. 001−03040).

Exhibit Number	Description
(4.2)	First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. and The First National Bank of Chicago (incorporated by reference to Qwest Corporation's Annual Report on Form 10−K for the year ended December 31, 2002, File No. 001−03040).
(4.3)	Indenture, dated as of October 15, 1997, with Bankers Trust Company (including form of Qwest's 9.47% Senior Discount Notes due 2007 and 9.47% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to exhibit 4.1 of Qwest's Form S−4 as declared effective on January 5, 1998, File No. 333−42847).
(4.4)	Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 1997, File No. 000−22609).
(4.5)	Indenture, dated as of January 29, 1998, with Bankers Trust Company (including form of Qwest's 8.29% Senior Discount Notes due 2008 and 8.29% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 1997, File No. 000−22609).
(4.6)	Indenture, dated as of November 4, 1998, with Bankers Trust Company (including form of Qwest's 7.50% Senior Discount Notes due 2008 and 7.50% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S−4, filed February 2, 1999, File No. 333−71603).
(4.7)	Indenture, dated as of November 27, 1998, with Bankers Trust Company (including form of Qwest's 7.25% Senior Discount Notes due 2008 and 7.25% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Registration Statement on Form S−4, filed February 2, 1999, File No. 333−71603).
(4.8)	Indenture, dated as of June 23, 1997, between LCI International, Inc. and First Trust National Association, as trustee, providing for the issuance of Senior Debt Securities, including Resolutions of the Pricing Committee of the Board of Directors establishing the terms of the 7.25% Senior Notes due June 15, 2007 (incorporated by reference to LCI's Current Report on Form 8−K, dated June 23, 1997, File No. 001−12683).
(4.9)	Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., and The First National Bank of Chicago (now known as Bank One Trust Company, N. A.), as trustee (incorporated by reference to U S WEST's Current Report on Form 8−K, dated November 18, 1998, File No. 001−14087).
(4.10)	Indenture, dated as of October 15, 1999, by and between Qwest Corporation and Bank One Trust Company, N.A., as trustee (incorporated by reference to Qwest Corporation's Annual Report on Form 10−K for the year ended December 31, 1999, File No. 001−03040).
(4.11)	First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc., U S WEST, Inc., Qwest, and Bank One Trust Company, as trustee (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended June 30, 2000, File No. 001−15577).
(4.12)	First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of January 29, 1998, with Bankers Trust Company (including form of Qwest's 8.29% Senior Discount Notes due 2008 and 8.29% Series B Senior Discount Notes due 2008 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended March 31, 2001, File No. 001−15577).

Exhibit Number	Description
(4.13)	First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of October 15, 1997, with Bankers Trust Company (including form of Qwest's 9.47% Senior Discount Notes due 2007 and 9.47% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended March 31, 2001, File No. 001−15577).
(4.14)	First Supplemental Indenture, dated as of February 16, 2001, to the Indenture, dated as of August 28, 1997, with Bankers Trust Company (including form of Qwest's 10 7/8% Series B Senior Discount Notes due 2007 as an exhibit thereto) (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended March 31, 2001, File No. 001−15577).
(4.15)	Officer's Certificate of Qwest Corporation, dated March 12, 2002 (including forms of 8 7/8% notes due March 15, 2012) (incorporated by reference to Qwest Corporation's Form S−4, File No. 333−115119).
(4.16)	Indenture, dated as of December 26, 2002, between Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A., as trustee (incorporated by reference to Qwest's Current Report on Form 8−K filed on January 10, 2003, File No. 001−15577).
(4.17)	First Supplemental Indenture, dated as of December 26, 2002, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), supplementing the Indenture, dated as of November 4, 1998, with Bankers Trust Company (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2003, as originally filed on March 11, 2004, File No. 001−15577).
(4.18)	First Supplemental Indenture, dated as of December 26, 2002, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), supplementing the Indenture, dated as of November 27, 1998, with Bankers Trust Company (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2003, as originally filed on March 11, 2004, File No. 001−15577).
(4.19)	Second Supplemental Indenture, dated as of December 4, 2003, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A. (as successor in interest to Bankers Trust Company), supplementing the Indenture, dated as of November 4, 1998, with Bankers Trust Company (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2003, as originally filed on March 11, 2004, File No. 001−15577).
(4.20)	Second Supplemental Indenture, dated as of December 4, 2003, by and among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and Bank One Trust Company, N.A. (as successor in interest to Bankers Trust Company), supplementing the Indenture, dated as of November 27, 1998, with Bankers Trust Company (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2003, as originally filed on March 11, 2004, File No. 001−15577).
(4.21)	Indenture, dated as of February 5, 2004, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and J.P. Morgan Trust Company (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2003, as originally filed on March 11, 2004, File No. 001−15577).
(4.22)	First Supplemental Indenture, dated as of August 19, 2004, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Registration Statement on Form S−4, File No. 333−115119).
(4.23)	Second Supplemental Indenture, dated November 23, 2004, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Current Report on Form 8−K filed on November 23, 2004, File No. 001−03040).

Exhibit Number	Description
(4.24)	First Supplemental Indenture, dated June 17, 2005, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and U.S. Bank National Association (incorporated by reference to Qwest's Current Report on Form 8−K filed on June 23, 2005, File No. 001−15577).
(4.25)	Third Supplemental Indenture, dated as of June 17, 2005, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest's Current Report on Form 8−K filed on June 23, 2005, File No. 001−15577).
(4.26)	Second Supplemental Indenture, dated June 23, 2005, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and U.S. Bank National Association (incorporated by reference to Qwest's Current Report on Form 8−K filed on June 23, 2005, File No. 001−15577).
(10.1)	Equity Incentive Plan, as amended, including forms of option and restricted agreements (incorporated by reference to Qwest's Current Report on Form 8−K filed on October 24, 2005, File No. 001−15577).*
(10.2)	Employee Stock Purchase Plan (incorporated by reference to Qwest's 2003 Proxy Statement for the Annual Meeting of Stockholders).*
(10.3) **	Nonqualified Employee Stock Purchase Plan.*
(10.4)	Deferred Compensation Plan (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 1998, File No. 000−22609).*
(10.5)	Equity Compensation Plan for Non−Employee Directors (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 1997, File No. 000−22609).*
(10.6)	Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2000, File No. 001−15577).*
(10.7)	Qwest Savings & Investment Plan, as amended and restated (incorporated by reference to Qwest's Form S−8 filed on January 15, 2004, File No. 333−11923).*
(10.8)	2005 Qwest Management Bonus Plan Summary (incorporated by reference to Qwest's Current Report on Form 8−K, filed February 18, 2005, File No. 001−15577).*
(10.9)	Summary Sheet Describing the Compensation Package for Qwest's Non−employee Directors (incorporated by reference to Qwest's Current Report on Form 8−K filed on October 24, 2005, File No. 001−15577).*
(10.10)	Registration Rights Agreement, dated as of April 18, 1999, with Anschutz Company and Anschutz Family Investment Company LLC (incorporated by reference to Qwest's Current Report on Form 8−K/A, filed April 28, 1999, File No. 000−22609).
(10.11)	Common Stock Purchase Agreement, dated as of April 19, 1999, with BellSouth Enterprises, Inc. (incorporated by reference to Qwest's Current Report on Form 8−K/A, filed April 28, 1999, File No. 000−22609).
(10.12)	Securities Purchase Agreement, dated January 16, 2001, with BellSouth Corporation (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2000, File No. 001−15577).
(10.13)	Employee Matters Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8−K/A, dated June 26, 1998, File No. 001−14087).
(10.14)	Tax Sharing Agreement between MediaOne Group and U S WEST, dated June 5, 1998 (incorporated by reference to U S WEST's Current Report on Form 8−K/A, dated June 26, 1998, File No. 001−14087).

Exhibit Number	Description
(10.15)	Purchase Agreement, dated August 16, 2000, among Qwest, Qwest Capital Funding, Inc., Salomon Smith Barney Inc. and Lehman Brothers Inc., as representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2000, File No. 001−15577).
(10.16)	Purchase Agreement, dated February 7, 2001, among Qwest, Qwest Capital Funding, Inc., Banc of America Securities LLC and Chase Securities Inc. as representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2000, File No. 001−15577).
(10.17)	Purchase Agreement, dated July 25, 2001, among Qwest, Qwest Capital Funding, Inc., Lehman Brothers Inc. and Merrill Lynch & Co., Inc., as representatives of the several initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended June 30, 2001, File No. 001−15577).
(10.18)	Registration Rights Agreement, dated February 5, 2004, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and the initial purchasers listed therein (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2003, File No. 001−15577).
(10.19)	Registration Rights Agreement, dated August 19, 2004, among Qwest Corporation and the initial purchasers listed therein (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).
(10.20)	Registration Rights Agreement, dated November 23, 2004, by and among Qwest Corporation and the initial purchasers listed therein (incorporated by reference to Qwest Corporation's Current Report on Form 8−K dated November 18, 2004, File No. 001−03040).
(10.21)	Registration Rights Agreement, dated June 17, 2005, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and the initial purchasers listed therein (incorporated by reference to Qwest's Current Report on Form 8−K filed on June 23, 2005, File No. 001−15577).
(10.22)	Registration Rights Agreement, dated June 17, 2005, by and among Qwest Corporation and the initial purchasers listed therein (incorporated by reference to Qwest's Current Report on Form 8−K filed on June 23, 2005, File No. 001−15577).
(10.23)	Registration Rights Agreement, dated June 23, 2005, among Qwest, Qwest Services Corporation, Qwest Capital Funding, Inc. and the initial purchasers listed therein (incorporated by reference to Qwest's Current Report on Form 8−K filed on June 23, 2005, File No. 001−15577).
(10.24)	Amended and Restated Employment Agreement, dated August 19, 2004, by and between Richard C. Notebaert and Qwest Services Corporation (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).*
(10.25)	Amendment to Amended and Restated Employment Agreement, dated October 21, 2005, by and between Richard C. Notebaert and Qwest Services Corporation (incorporated by reference to Qwest's Current Report on Form 8−K filed on October 24, 2005, File No. 001−15577).*
(10.26)	Aircraft Time Sharing Agreement, dated November 2, 2004, by and between Qwest Business Resources, Inc. and Richard C. Notebaert (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).
(10.27)	Amended and Restated Employment Agreement, dated August 19, 2004, by and between Oren G. Shaffer and Qwest Services Corporation (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).*

Exhibit Number	Description
(10.28)	Amendment to Amended and Restated Employment Agreement, dated October 21, 2005, by and between Oren G. Shaffer and Qwest Services Corporation (incorporated by reference to Qwest's Current Report on Form 8−K filed on October 24, 2005, File No. 001−15577).*
(10.29)	Aircraft Time Sharing Agreement, dated March 19, 2004, by and between Qwest Business Resources, Inc. and Oren G. Shaffer (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).
(10.30)**	Retention Agreement, dated May 8, 2002, by and between Qwest and Richard N. Baer.*
(10.31)**	Severance Agreement, dated July 21, 2003, by and between Qwest and Richard N. Baer.*
10.32	Severance Agreement, dated April 4, 2005, by and between Qwest and Thomas E. Richards.*
(10.33)**	Letter Agreement, dated August 20, 2003, by and between Qwest and Paula Kruger.*
(10.34)**	Severance Agreement, dated September 8, 2003, by and between Qwest and Paula Kruger.*
(10.35)	Letter Agreement, dated August 19, 2004, by and between Qwest and Paula Kruger (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).*
(10.36)	Amended and Restated Employment Agreement, dated August 19, 2004 by and between Barry K. Allen and Qwest Services Corporation (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).*
(10.37)	Aircraft Time Sharing Agreement, dated March 19, 2004, by and between Qwest Business Resources, Inc. and Barry Allen (incorporated by reference to Qwest's Quarterly Report on Form 10−Q for the quarter ended September 30, 2004, File No. 001−15577).
(10.38)	Letter Agreement, dated March 27, 2003, by and between Qwest and John W. Richardson (incorporated by reference to Qwest's Registration Statement on Form S−4, File No. 333−115115).*
(10.39)	Severance Agreement, dated as of July 28, 2003, by and between Qwest and John W. Richardson (incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2004, File No. 001−15577).*
(10.40)	Private Label PCS Services Agreement between Sprint Spectrum L.P. and Qwest Wireless LLC dated August 3, 2003 (incorporated by reference to Qwest's Current Report on Form 8−K filed on March 14, 2005, File No. 1−15577).†
10.41	Memorandum of Understanding, dated as of October 31, 2005, between Lead Plaintiffs in *In re Qwest Communications International Inc. Securities Litigation* and Qwest.
12	Calculation of Ratio of Earnings to Fixed Charges.
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes−Oxley Act of 2002.
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes−Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.
99.1	Quarterly Operating Revenue.
99.2	Quarterly Condensed Consolidated Statement of Operations.
99.3	Credit Agreement, dated as of October 21, 2005, among Qwest Services Corporation, Qwest, the Lenders party thereto from time to time, and Wachovia Bank, National Association, as Administrative Agent and Issuing Lender.

( ) Previously filed.
* Executive Compensation Plans and Arrangements.
** Incorporated by reference to Qwest's Annual Report on Form 10−K for the year ended December 31, 2002, File No. 001−15577.
† Confidential treatment has been granted by the SEC for certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the SEC.

In accordance with Item 601(b)(4)(iii)(A) of Regulation S−K, copies of certain instruments defining the rights of holders of certain of our long−term debt are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QWEST COMMUNICATIONS INTERNATIONAL INC.

/s/ John W. Richardson

By: _____

John W. Richardson
Senior Vice President and Controller
(Chief Accounting Officer and Duly Authorized Officer)

November 1, 2005

Exhibit 10.32

SEVERANCE AGREEMENT

This Severance Agreement ("Agreement"), which is effective as of **April 4, 2005** (the "Effective Date"), is by and between **Thomas E. Richards** ("Executive"), who is an officer of Qwest Communications International, Inc., a Delaware corporation having its principal executive offices in Denver, Colorado or one of its subsidiaries or affiliates ("Company") and who is employed by Qwest Services Corporation, a subsidiary of the Company, and Company and any successor thereto:

WHEREAS, the Company wishes to encourage Executive's continued service and dedication in the performance of Executive's duties; and

WHEREAS, in order to induce Executive to remain in the employ of the Company, and in consideration for Executive's continued service to the Company, the Company agrees that Executive shall receive the benefits set forth in this Agreement in the event that Executive's employment with the Company is terminated in the circumstances described herein.

Therefore, in consideration of the mutual promises set forth below, Company and Executive hereby agree as follows:

1. TERM OF EMPLOYMENT; AT−WILL EMPLOYMENT. This Agreement does not contain any promise or representation concerning the duration of Executive's employment. Executive's employment is at−will, and may be altered or terminated by either Executive or the Company at any time, with or without cause, and with or without notice. This at−will employment relationship may not be modified unless in a written agreement signed by Executive and either the Chief Executive Officer or the Chief Human Resources Officer.

2. CHANGE IN CONTROL

a. **CHANGE IN CONTROL DEFINED:** For purposes of this Agreement, "Change in Control" shall have the definition currently in the Qwest Equity Incentive Plan ("Stock Plan").

b. **STOCK OPTIONS/EQUITY**: The Board of Directors may, in its discretion, periodically grant Executive additional stock options or other awards under the Stock Plan. Notwithstanding the terms of any stock option agreement to the contrary, pursuant to the Board of Directors' resolution effective September 19, 2002, upon a Change in Control, all awards granted to Executive after September 19, 2002 under the Stock Plan shall immediately vest and all stock options shall remain exercisable for the full term of such option.

3. TERMINATION.

a. **Termination for Cause**. The Company may, in its sole discretion, immediately terminate this Agreement and Executive's employment

for Cause by giving notice to Executive. If Executive's employment is terminated for Cause pursuant to this paragraph 3.a., Executive shall not be entitled to any severance payment or any other post−employment obligation provided under this Agreement. Any one or more of the following events shall, for purposes of this Agreement, constitute Cause:

(1) Commission of an act deemed by the Company in its sole discretion to be an act of dishonesty, fraud, misrepresentation or other act of moral turpitude that would reflect negatively upon Qwest or compromise the effective performance of Executive's duties;

(2) Unlawful conduct resulting in material injury to Qwest, as determined by the Company in its sole discretion;

(3) Conviction of (or pleading nolo contendere to) a felony or any misdemeanor involving moral turpitude;

(4) Continued failure to perform Executive's duties to the satisfaction of the Chief Executive Officer (other than such failure resulting from Executive's incapacity due to physical or mental illness) after the Chief Executive Officer delivers written notice to Executive specifically identifying the manner in which Executive has failed to substantially perform his or her duties and Executive has been afforded a reasonable opportunity to substantially perform his or her duties; or

(5) Willful violation of the Qwest Code of Conduct or other Qwest policies resulting in injury to Qwest, as determined by the Company in its sole discretion.

For two years following a Change in Control, a termination for Cause shall require the approval of the Board of Directors.

b. **Severance Payments When Termination Not By Executive.**

(1) **Termination without Cause by Company**. The parties agree that the Company may terminate Executive's employment without Cause. Except under circumstances described in subparagraph 3.b(2) below, if Company terminates Executive's employment without Cause, and Executive signs a complete waiver and release of claims against Qwest acceptable to Company in the form attached hereto as Attachment A ("Waiver"), then Company shall pay Executive the "Standard Severance Amount" defined below. The Waiver includes, among other terms, a provision requiring Executive to pay back to Qwest any severance received by Executive if after the payments are made it is determined that, while employed by Qwest or any Qwest entity, Executive engaged in conduct constituting Cause. The Waiver does not include a

release of Qwest's obligations, if any, to indemnify Executive under Qwest bylaws or applicable state law. The Standard Severance Amount will equal one and one−half times Executive's highest annual base salary in effect during the 12 months preceding the termination of Executive's employment. The Standard Severance Amount will be paid over an 18−month period through the Company's regular management payroll processes. If, at the end of the 18−month period, Executive has not breached or threatened to breach any part of this Agreement, Executive will also receive a lump−sum payment equal to one and one−half times Executive's highest target annual bonus in effect during the 12 months preceding the termination of Executive's employment, minus any applicable or legally−required withholdings.

(2) Change in Control Termination. If Company (with the required approval of the Board of Directors) terminates Executive's employment without Cause within two years following a Change in Control, then, provided Executive signs a Waiver, as described in subparagraph 3.b.(1) above, Company shall pay Executive the Change in Control Severance Amount defined in the following sentence: The Change in Control Severance Amount payable to Executive will equal (a) (i) three times Executive's annual base salary in effect at the time of the termination of Executive's employment, or, if greater, Executive's annual base salary in effect at the time of the Change in Control, plus (ii) three times Executive's target annual bonus in effect at the time of the termination of Executive's employment, or, if greater, Executive's target annual bonus in effect at the time of the Change in Control plus (b) a pro rata bonus payment for the portion of the bonus payment measurement period in which Executive was employed before the termination of Executive's employment, calculated using individual, business unit and company performance at 100% of target. The Change in Control Severance amount will be paid in a lump sum within 30 days of receiving the signed Waiver.

c. **Change in Control Termination for Good Reason**. Executive may terminate his or her employment for Good Reason after giving written notice to the Company within sixty (60) days after an event constituting Good Reason, (as defined in subparagraph 3.c.(1) below). If Executive terminates Executive's employment for Good Reason within two years following a Change in Control, then, provided Executive signs a Waiver (as defined in subparagraph 3.b.(1) above), Company shall pay Executive the Change in Control Severance Amount, as described in subparagraph 3.b.(2) above in a lump sum within 30 days of receiving the signed Waiver.

(1) **Termination for Good Reason Following a Change in Control**. For purposes of this subparagraph 3.c., Good Reason shall mean:

(A) a reduction of either base salary or Executive's target annual bonus, where the salary or annual target bonus are measured immediately prior to such reduction, as opposed to at the time of Executive's execution of this Agreement;

(B) a material reduction of Executive's responsibilities, where such responsibilities are measured immediately prior to such reduction, as opposed to at the time of Executive's execution of this Agreement;

(C) Company's material breach of this Agreement;

(D) Company's failure to obtain the agreement of any successor to honor the terms of this Agreement; or

(E) A requirement that Executive's primary work location be moved to a location that is greater than thirty−five straight line miles from Executive's primary work location immediately prior to the imposition of such requirement.

"Good Reason" shall not include any other circumstances, including but not limited to, Executive's discharge for Cause, Executive's resignation or retirement (other than in the circumstances set forth in (A) – (E) above), or any leave of absence.

d. **COBRA Coverage**. If Executive's employment is terminated pursuant to subparagraph 3.b. or 3.c. above, Executive may be eligible for Qwest−subsidized COBRA for a period of 18 months (unless Executive becomes ineligible for or forfeits severance benefits pursuant to the terms of this Agreement) following the Executive's election of COBRA health care continuation coverage (generally beginning as of the first day of the first month following the month in which Executive is designated as terminated on the Qwest payroll system) on the same basis as for active employees under the group medical plan. This provision shall not extend the period for which any Executive is eligible for COBRA continuation coverage.

4. SPECIAL TAX PROVISION.

a. Anything in this Agreement to the contrary notwithstanding, in the event that the Executive receives any amount or benefit (collectively, the "Covered Payments") (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Internal

Revenue Code of 1986, as amended (the "Code") or any person affiliated with the Company or such person) that is or becomes subject to the excise tax imposed by or under Section 4999 of the Code (or any similar tax that may hereafter be imposed) and/or any interest or penalties with respect to such excise tax (such excise tax, together with such interest and penalties, is hereinafter collectively referred to as the "Excise Tax") by reason of the application of Section 280G(b)(2) of the Code, the Company shall pay to the Executive an additional amount (the "Tax Reimbursement Payment") such that after payment by the Executive of all taxes (including, without limitation, any interest or penalties and any Excise Tax imposed on or attributable to the Tax Reimbursement Payment itself), the Executive retains an amount of the Tax Reimbursement Payment equal to the sum of (i) the amount of the Excise Tax imposed upon the Covered Payments, and (ii) without duplication, an amount equal to the product of (A) any deductions disallowed for federal, state or local income tax purposes because of the inclusion of the Tax Reimbursement Payment in Executive's adjusted gross income, and (B) the highest applicable marginal rate of federal, state or local income taxation, respectively, for the calendar year in which the Tax Reimbursement Payment is made or is to be made. The intent of this paragraph 4 is that after the Executive pays federal, state and local income taxes and any payroll taxes, the Executive will be in the same position as if the Executive were not subject to the Excise Tax under Section 4999 of the Code and did not receive the extra payments pursuant to this paragraph 4, and this paragraph 4 shall be interpreted accordingly.

b. Except as otherwise provided in subparagraph 4(a), for purposes of determining whether any of the Covered Payments will be subject to the Excise Tax and the amount of such Excise Tax, such Covered Payments will be treated as "parachute payments" (within the meaning of Section 280G(b)(2) of the Code) and such payments in excess of the Code Section 280(G)(b)(3) "base amount" shall be treated as subject to the Excise Tax, unless, and except to the extent that, the Company's independent certified public accountants or legal counsel (reasonably acceptable to the Executive) appointed by such public accountants (or, if the public accountants decline such appointment and decline appointing such legal counsel, such independent certified public accountants as promptly mutually agreed on in good faith by the Company and the Executive) (the "Accountant"), deliver a written opinion to the Executive, reasonably satisfactory to the Executive's legal counsel, that, in the event such reporting position is contested by the Internal Revenue Service, there will be a more likely than not chance of success with respect to a claim that the Covered Payments (in whole or in part) do not constitute "parachute payments," represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4) of the Code) in excess of the "base amount" allocable to such reasonable compensation, or such "parachute payments" are otherwise not subject to such Excise Tax (with appropriate legal authority, detailed analysis and explanation provided therein by the Accountant); and the value of any Covered Payments which are non−cash benefits or deferred payments or benefits shall be determined by the Accountant in accordance with the principles of Section 280G of the Code.

c. For purposes of determining the amount of the Tax Reimbursement Payment, the Executive shall be deemed to pay federal, state and/or local income taxes at the highest applicable marginal rate of income taxation for the calendar year in which the Tax Reimbursement Payment is made or is to be made, and to have otherwise allowable deductions for federal, state and local income tax purposes at least equal to those disallowed due to the including of the Tax Reimbursement Payment in the Executive's adjusted gross income.

d. (1) (A) In the event that prior to the time the Executive has filed any of the Executive's tax returns for a calendar year in which Covered Payments are made, the Accountant determines, for any reason whatsoever, the correct amount of the Tax Reimbursement Payment to be less than the amount determined at the time the Tax Reimbursement Payment was made, the Executive shall repay to the Company, at the time that the amount of such reduction in the Tax Reimbursement Payment is determined by the Accountant, the portion of the prior Tax Reimbursement Payment attributable to the Excise Tax and federal, state and local income taxes imposed on the portion of the Tax Reimbursement Payment being repaid by the Executive, using the assumptions and methodology utilized to calculate the Tax Reimbursement Payment (unless manifestly erroneous), plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code.

(B) In the event that the determination set forth in (A) above is made by the Accountant after the filing by the Executive of any of the Executive's tax returns for a calendar year in which Covered Payments are made, the Executive shall file at the request of the Company an amended tax return in accordance with the Accountant's determination, but no portion of the Tax Reimbursement Payment shall be required to be refunded to the Company until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion (less any tax the Executive must pay on such interest and which the Executive is unable to deduct as a result of payment of the refund).

(C) In the event that the Executive receives a refund pursuant to (B) above and repays such amount to the Company, the Executive shall thereafter file for any refunds or credits that may be due to Executive by reason of the repayments to the Company. The Executive and the Company shall mutually agree upon the course of action, if any, to be pursued (which shall be at the expense of the Company) if the Executive's claim for such refund or credit is denied.

(2) In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time a Tax Reimbursement Payment was made (including by reason of any payment the existence or amount of which could not be determined at the time of the earlier Tax Reimbursement Payment), the Company shall make an additional Tax Reimbursement Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) once the amount of such excess is finally determined.

(3) In the event of any controversy with the Internal Revenue Service (or other taxing authority) under this paragraph 4, subject to the second sentence of subparagraph (1)(C) above, Executive shall permit the Company to control issues related to this paragraph 4 (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and his or her representative shall cooperate with the Company and its representative.

(4) With regard to any initial filing for a refund or any other action required pursuant to this paragraph 4 (other than by mutual agreement) or, if not required, agreed to by the Company and the Executive, the Executive shall cooperate fully with the Company, provided that the foregoing shall not apply to actions that are provided herein to be at the Executive's sole discretion.

e. The Tax Reimbursement Payment, or any portion thereof, payable by the Company shall be paid not later than the fifth day following the determination by the Accountant, and any payment made after such fifth day shall bear interest at the rate provided in Code Section 1274(b)(2)(B) to the extent and for the period after such fifth day that Executive has an obligation to make payment or estimated payment of the Excise Tax. The Company shall use its best efforts to cause the Accountant to deliver promptly the initial determination required hereunder with respect to Covered Payments paid or payable in any calendar year; if the Accountant's determination is not delivered within ninety (90) days after Covered Payments are paid or distributed, the Company shall pay the Executive the Tax Reimbursement Payment set forth in an opinion from counsel recognized as knowledgeable in the relevant areas selected by Executive, and reasonably acceptable to the Company, within five days after delivery of such opinion. The Company may withhold from the Tax Reimbursement Payment and deposit into applicable taxing authorities such amounts as they are required to withhold by applicable law. To the extent that the Executive is required to pay estimated or other taxes on amounts received by the Executive beyond any withheld amounts, the Executive shall promptly make such payments. The amount of such payment shall be

subject to later adjustment in accordance with the determination of the Accountant as provided herein.

f. The Company shall be responsible for (i) all charges of the Accountant, (ii) if subparagraph (e) is applicable, the reasonable charges for the opinion given by the Executive's legal counsel, and (iii) all reasonable charges in connection with the preparation and filing of any amended tax returns on behalf of the Executive required by the Company, required hereunder, or required by applicable law. The Company shall gross−up for tax purposes any income to the Executive arising pursuant to this subparagraph (f) so that the economic effect to the Executive is the same as if the benefits were provided on a non−taxable basis.

The Executive and the Company shall mutually agree on and promulgate further guidelines in accordance with this paragraph 4 to the extent that any are necessary to effect the reversal of excessive or shortfall Tax Reimbursement Payments. The foregoing shall not in any way be inconsistent with subparagraph 4(d)(1)(C).

5. OFFSET. To the extent permitted by law, any severance benefits received under this Agreement may be reduced by the amount(s) of any outstanding monetary debts Executive owes to Qwest. Such debts will be treated as satisfied to the extent of the withheld payments.

It is the express intent of Qwest that the monies received under this Agreement be a set−off against amounts to which you are entitled under any applicable state unemployment statute.

6. NONDISCLOSURE. Executive will not disclose outside of Qwest or to any person within Qwest who does not have a legitimate business need to know, any Confidential Information (as defined below) during Executive's employment with the Company or any other Qwest entity. Executive will not disclose to anyone or make any use of any Confidential Information of Qwest after Executive's employment with Qwest ends for any reason, except as required by law after timely notice is given by Executive to Qwest. This agreement not to disclose or use Confidential Information means, among other things, that Executive, for a period of 18 months beginning on the effective date of the termination of Executive's employment with the Company or any other Qwest entity for any reason, may not take or perform a job whose responsibilities would likely lead Executive to disclose or use Confidential Information. Executive acknowledges and agrees that the assumption and performance of such responsibilities, in that situation, would likely result in the disclosure or use of Confidential Information and would likely result in irreparable injury to Qwest. Moreover, during Executive's employment with Qwest, Executive shall not disclose or use for the benefit of Qwest, Executive or any other person or entity any confidential or trade secret information belonging to any former employer or other person or entity to which Executive owes a duty of confidence or nondisclosure of such information. If a court determines that this provision is too broad, Executive and Company agree that the court

shall modify the provision to the extent (but not more than is) necessary to make the provision enforceable. “Confidential Information” is any oral or written information not generally known outside of Qwest, including without limitation, trade secrets, intellectual property, software and documentation, customer information (including, without limitation, customer lists), company policies, practices and codes of conduct, internal analyses, analyses of competitive products, strategies, merger and acquisition plans, marketing plans, corporate financial information, information related to negotiations with third parties, information protected by Qwest’s privileges (such as the attorney−client privilege), internal audit reports, contracts and sales proposals, training materials, employment and personnel records, performance evaluations, and other sensitive information. This agreement does not relieve Executive of any obligations Executive has to Qwest under law. Nothing in this agreement shall limit, restrict, preclude or influence Executive’s testimony in any way or cause Executive not to provide truthful testimony or information in any manner or in response to any inquiry by a governmental official.

7. NONCOMPETE. In light of Executive’s senior level position with Qwest, an international corporation engaged in a highly competitive business environment, for a period of 18 months beginning on the effective date of the termination of Executive’s employment with the Company or any other Qwest entity, regardless of the reason for the termination and regardless of the party bringing about the termination, Executive agrees not to work for, own more than 2% of the common stock of, advise, represent or assist in any other way any person or entity that competes with, or intends to compete with the Company or any other Qwest entity with respect to any product sold or service performed by the Company or any other Qwest entity in any state or country in which the Company or any other Qwest entity sells such products or performs such services. If a court determines that this provision is too broad, Executive and Company agree that the court should modify the provision to the extent (but not more than is) necessary to make the provision enforceable.

8. NONSOLICITATION/NO−HIRE. For a period of one year beginning on the effective date of the termination of Executive’s employment with the Company or any other Qwest entity, regardless of the reason for the termination and regardless of the party bringing about the termination, Executive agrees not to induce any employee of Qwest to leave Qwest’s employment. This agreement means, among other things, that Executive may not have any part in hiring anyone who is a Qwest employee, even if Executive is contacted by the Qwest employee first. For these purposes, employees of Qwest shall include all persons who are employed by the Company or any other Qwest entity at the time Executive violates this paragraph 8 or were employed by the Company or any other Qwest entity at any time during the six months preceding such violation. If a court determines that this provision is too broad, Executive and Company agree that the court should modify the provision to the extent (but not more than is) necessary to make the provision enforceable.

9. REMEDIES FOR VIOLATION OF PARAGRAPHS 6, 7, OR 8. The Executive agrees that it would be difficult to measure any damages caused to Qwest which might result from any breach by the Executive of the promises set forth in paragraphs 6, 7, and 8, and that in any event money damages would be an inadequate remedy for any such breach. Accordingly, subject to paragraph 10, the Executive agrees that if the Executive breaches, or proposes to breach, any portion of this Agreement, Qwest or the Company shall be entitled, in addition to all other remedies that it may have, to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to Qwest.

10. WAIVER OF RIGHT TO JURY. By signing this Agreement, Executive voluntarily, knowingly and intelligently waives any right he or she may have to a jury trial for all claims arising out of or relating to this Agreement and any other claim arising out of or relating to Executive's employment with or termination from the Company. The Company also hereby voluntarily, knowingly, and intelligently waives any right it might otherwise have to a jury trial for all claims arising out of or relating to this Agreement and any other claim arising out of or relating to Executive's employment with or termination from the Company.

11. COOPERATION AND REIMBURSEMENT. Executive agrees, both during Executive's employment and following the termination of Executive's employment, to cooperate reasonably with the Company or any other Qwest entity in connection with any dispute, lawsuit, arbitration, or any internal or external investigation involving Qwest or any of their predecessors (a "Proceeding") with respect to which Qwest believes in good faith that Executive may possess relevant information. In that event, upon reasonable notice and at reasonable times, and for reasonable periods, Executive agrees to make himself or herself available for interviews, witness preparation sessions, and appearances in connection with any Proceeding (including, but not limited to, appearances at depositions, hearings and trials). Recognizing that upon Executive's separation from Company, participating in interviews or witness preparation sessions may be a burden, Company agrees to reimburse Executive for the time Executive spends involved in interviews and witness preparation sessions requested by Qwest at a rate equal to Executive's final base salary, computed on an hourly basis (assuming a 40 hour work week), for such time actually spent in such interviews or witness preparation sessions. In addition, Company will reimburse Executive for reasonable expenses Executive incurs in connection with such interviews and witness preparation sessions. Company will not be obligated to reimburse Executive for lost wages, lost opportunities, or other financial consequences of such cooperation, or to make any other payment to Executive other than the payments by Company referred to in the two previous sentences of this paragraph of this Agreement; provided, however, nothing in this paragraph 11 shall impair or limit any rights or entitlement Executive may have to indemnification and director's and officer's liability insurance coverage. The parties further agree that Company will not, and will not be obligated to, reimburse Executive for any time spent testifying in any Proceeding

(including, but not limited to, appearances at depositions, hearings and trials), although Company will reimburse reasonable expenses for such appearances, as provided above. Nothing in this Agreement shall limit, restrict, preclude, require or influence Executive's testimony in any Proceeding or cause Executive not to provide truthful testimony or information in any matter or in response to any inquiry by a government official or representative. Company's obligation to reimburse Executive as described above is conditional upon Executive providing, at all times, information that he objectively, reasonably and in good faith believes to be truthful in connection with any Proceeding.

12. INDEMNIFICATION. Both during Executive's employment and after the termination of Executive's employment for any reason, Company, or any subsidiary or successor of Company of which Executive is an officer or member of the board of directors, shall indemnify Executive to the fullest extent required or permitted by its Bylaws and applicable law.

13. SUCCESSORS AND ASSIGNS. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, Executive's assigns, the Company, any other Qwest entity, and their successors and assigns.

14. CHOICE OF LAW. All questions concerning the construction, validity and interpretation of this Agreement shall be governed by the internal law, and not the law of conflicts, of the State of Colorado.

15. SEVERABILITY. If one or more terms, provisions or parts of this Agreement are found by a court or arbitrator to be invalid, illegal, or incapable of being enforced by any rule of law or public policy, the terms, provisions or parts shall be modified to the extent (but not more than is) necessary to make the provision enforceable. Additionally, all other terms, provisions and parts of this Agreement shall nevertheless remain in full force and effect.

16. COMPLETE AGREEMENT. This Agreement contains the entire understanding of the parties with respect to the matters addressed in this Agreement, and supersedes all prior representations, understandings and agreements of the parties with respect to the matters addressed in this Agreement, including, but not limited to, any and all prior agreements for the payment of severance benefits. The parties acknowledge that no promises or representations have been made to induce Company or Executive to sign this Agreement other than as expressly set forth in this Agreement, and that each party has signed this Agreement as a free and voluntary act. No term or provision of this Agreement may be modified or extinguished, in whole or in part, except by a writing which is dated and signed by both Executive and the Chief Executive Officer of Company and approved by the Board of Directors.

17. CONSTRUCTION; REPRESENTATION. In any interpretation of this Agreement, any ambiguities shall not be construed against any party on the basis that

the party was the drafter. Executive represents that Executive is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he or she has read this Agreement and that he understands its terms. Executive acknowledges that, prior to assenting to the terms of this Agreement, Executive has been encouraged to, and has been given a reasonable amount of time to review it, to consult with counsel of Executive's choice, and to negotiate at arm's−length with the Company as to its contents. Executive and Company agree that the language used in this Agreement is the language chosen by the parties to express their mutual intent, and that they have entered into this Agreement freely and voluntarily and without pressure or coercion from anyone.

18. CONDITIONAL REPAYMENT OF PAYMENTS AND BENEFITS. If Executive receives benefits under Paragraph 3.b.(1) above, and, within two years following Executive's termination of employment, Company determines that during Executive's employment with Qwest, Executive engaged in conduct that would have constituted "Cause" for termination (as defined in 3.a. above), regardless of (i) when during Executive's employment with Qwest such conduct occurred, (ii) when Qwest knew or learns of such conduct or should have known of such conduct, or (iii) what Qwest now knows or should have known about Executive's conduct, then Company shall provide to Executive (or, if applicable, Executive's estate or beneficiary) written notification of such determination, which written notification shall expressly set forth the basis for Company's determination in reasonable detail. After Company provides this written notification to Executive, it may stop or withhold any payments which have not been made under this Agreement. If Executive disputes that such Cause exists or existed, Executive and his or her counsel shall make a presentation to the Company to request that Company withdraw such determination. If the matter is not settled or resolved after Executive's presentation to the Company, either party may commence an action in a court of competent jurisdiction, subject to the waiver of any right to jury trial in Paragraph 10 above. In addition, if Executive breaches Executive's obligations under the Nondisclosure or Noncompete provisions of this Agreement, Company may stop or withhold any payments which have not been made under this Agreement.

If a court finds that Cause exists or existed or that Executive has breached Executive's obligations under the Nondisclosure (Paragraph 6) or Noncompete (Paragraph 7) provisions of this Agreement, or if Executive does not timely commence an action disputing Company's Cause determination, Executive shall make prompt repayment to Company of the cash payments provided in Section 3 of this Agreement and other benefits received by Executive pursuant to this Agreement (including, but not limited to, the value of any discounted COBRA coverage). Consistent with applicable law, any repayments shall include an interest factor equal to the applicable federal short term interest rate pursuant to Internal Revenue Code section 1274. Interest shall begin to accrue on the 31st day after Executive (or, if applicable, Executive's estate or beneficiary) received Company's written notification of its determination that such Cause exists or existed, and shall continue to accrue until complete repayment is made to Company. If Company notifies Executive (or, if applicable, Executive's estate or

beneficiary) in writing of the determination that Cause for termination exists prior to having made the payment required pursuant to Section 3 of this Agreement, such payment shall not be made unless the Company withdraws its determination, if the arbitrator determines that Cause did not exist, or if the parties agree otherwise.

19. RE−EMPLOYMENT. Executive agrees that if at any time during Executive's severance period Executive accepts employment with Qwest Communications International, Inc., Qwest Services Corporation, any of their wholly−owned subsidiaries or any successor(s) thereto, all severance benefits to which he or she is entitled for the remainder of the severance period shall cease effective the date Executive accepts the position.

20. WAIVER OF BREACH. The waiver by either Company or Executive of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any prior or subsequent breach by either party.

21. HEADINGS. The headings contained in this Agreement are for convenience only, do not constitute part of the Agreement and shall not limit, be used to interpret or otherwise affect in any way the provisions of the Agreement.

22. NOTICES. Any notices provided hereunder must be in writing and shall be deemed effective on the earlier of personal delivery (including personal delivery by telecopy or private overnight carrier) or the third day after mailing by first class mail to the recipient at the address indicated below:

To the Company:	Executive Vice President and Chief Human Resources Officer Qwest Communications International, Inc. 1801 California Street Denver, CO 80202
To Executive:	**Thomas E. Richards** **1785 Braymore Drive** **Barrington, IL 60010**
With a copy to:	_____

or to such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party.

IN WITNESS WHEREOF, the parties now execute this Agreement, to be effective as of the Effective Date.

QWEST COMMUNICATIONS
INTERNATIONAL INC.:

By: _____
Teresa A. Taylor
Executive Vice President and
Chief Human Resources Officer

Executive:

By: _____
Thomas E. Richards
EVP – National Business Markets

ATTACHMENT A

WAIVER AND RELEASE AGREEMENT

1. Release and Waiver of Claims and Covenant Not to Sue.

As a free and voluntary act, you hereby release and discharge and covenant not to sue, Qwest Communications International Inc., any present or former subsidiary or affiliated Company, any predecessor (including U S WEST and all its affiliates) or successor, and the directors, officers, employees, shareholders and agents of any or all of them, (hereinafter "Qwest"), from any and all debts, obligations, claims, liability, damages, punitive damages, demands, judgments and/or causes of action of any kind whatsoever, including specifically but not exclusively:

- all claims relating to or arising out of your employment with Qwest and/or U S WEST;
- all claims arising out of your Severance Agreement (except for claims arising under this Agreement);
- all claims relating to or arising from any claimed breach of an alleged oral or written employment contract, quasi−contracts, implied contracts, payment for services, wages or salary and/or promissory estoppel;
- any alleged tort claims;
- any claims for libel and/or slander;
- all claims relating to purported employment discrimination or civil rights violations or arising under any federal or state employment statutes including, without limitation, claims under Title VII of the Civil Rights Act of 1964, as amended; claims under the Civil Rights Act of 1991; claims under the Age Discrimination in Employment Act of 1967, as amended; claims under 42 U.S.C. § 1981, § 1981a, § 1983, § 1985, or § 1988; claims under the Family and Medical Leave Act of 1993; claims under the Americans with Disabilities Act of 1990, as amended; claims under the Rehabilitation Act of 1973; claims under the Fair Labor Standards Act of 1938, as amended; claims under the Worker Adjustment and Retraining Notification Act; claims under the Colorado Anti−Discrimination Act; and claims under the Employee Retirement Income Security Act of 1974, as amended; or any other applicable federal, state or local statute or ordinance, including claims for attorneys' fees;

- any claim for any disability payments under the Qwest Disability Plan or Qwest Pension Plan after your termination date. The reference to the Qwest Disability Plan and Qwest Pension Plan includes any successor or predecessor of such plans such as the former Sickness and Accident Disability Plan or Long Term Disability Plan of any Qwest or U S WEST entity and all benefits thereunder;

- any and all claims which you might have or assert against Qwest (1) by reason of your employment with and/or termination of employment from Qwest and all circumstances related thereto; or (2) by reason of any other matter, cause, or dispute whatsoever between you and Qwest which arose prior to the effective date of this Agreement. This Agreement excludes any claims you may make under (1) the applicable state unemployment compensation laws, (2) applicable workers' compensation statutes, (3) for indemnification to the extent permitted or required by the bylaws of a Qwest company or applicable state law; and (4) claims which arise after the execution of this Agreement;

- your right to seek individual relief on your own behalf for any charges of discrimination filed with any federal, state or local agency, pending or otherwise, arising from or related to your employment or termination of employment with Qwest.

2. **Waiver of Right to Jury. By signing this Agreement, you voluntarily, knowingly and intelligently waive any right you may have to a jury trial for all claims arising out of or relating to this Agreement and any other claim arising out of or relating to your employment with or termination from the Company. The Company also hereby voluntarily, knowingly, and intelligently waives any right it might otherwise have to a jury trial for all claims arising out of or relating to this Agreement and any other claim arising out of or relating to your employment with or termination from the Company.**

3. You agree that the monies and benefits described above are considerations to which you would not otherwise be entitled unless you sign this Agreement, and that these considerations constitute payment in exchange for signing this Agreement.

4. If one or more terms, provisions or parts of this Agreement are found by a court or arbitrator to be invalid, illegal, or incapable of being enforced by any rule of law or public policy, the terms, provisions or parts shall be modified to the extent (but not more than is) necessary to make the provision enforceable. You agree that if any portion of this Agreement is found to be unenforceable or prohibited, the remainder of this Agreement shall remain in full force and effect, unless the

material terms and intent of this Agreement are materially changed by the fact that a portion of this Agreement is unenforceable or prohibited.

5. You agree that this Agreement shall not be admissible in any proceeding as evidence of any improper conduct by Qwest against you and Qwest denies that it has taken any improper action against you in violation of any federal, state, or local law or common law principle.

6. You acknowledge that no promises or representations have been made to induce you to sign this Agreement other than as expressly set forth herein and that you have signed this Agreement as a free and voluntary act.

7. You acknowledge that this release means, in part, that you give up all your rights to damages and/or money based upon any claims against Qwest of age discrimination. You do not waive your rights to make claims for damages and/or money which arise after the date this Agreement is signed. Under the Age Discrimination in Employment Act, you have the right within seven days of the date you sign this Agreement to revoke your waiver of rights to claim damages and/or money. In the event you revoke your agreement to be obligated to the terms of this Agreement, the benefits offered herein shall be null and void, meaning you will receive no involuntary termination benefits under your Severance Agreement. To be effective, your revocation must be in writing and delivered to Executive Vice President and Chief Human Resources Officer, Qwest Communications International, Inc. 1801 California Street, Denver, Colorado 80202, within the seven−day period. If by mail, the revocation must be (1) postmarked within the seven−day period, (2) properly addressed, and (3) sent by certified mail, return receipt requested.

8. You acknowledge that you (a) have had sufficient opportunity (not less than 45 days) to review this Waiver and Release Agreement, (b) have been encouraged to consult with and have had sufficient opportunity to consult with your attorney and financial advisor before signing this Waiver and Release Agreement, and (c) that you understand and agree to all of the terms of this Waiver and Release Agreement.

AGREEMENT

I have read and I understand the terms of the foregoing Waiver and Release, and I hereby agree to all of the terms of the foregoing Agreement.

(Employee's Signature) (Date)

Please return all pages of this signed agreement to:

Executive Compensation
1801 California Street
Suite 4500
Denver, Colorado 80202

Exhibit 10.41

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

Civil Action No. 01−CV−1451−REB−CBS

(Consolidated with Civil Action Nos. 01−RB−1472, 01−RB−1527, 01−RB−1616. 01−RB−1799, 01−RB−1930, 01−RB−2083, 02−RB−333, 02−RB−374, 02−D−507, 02−RB−658, 02−RB−755, 02−RB−798, and 04−RB−238)

In re QWEST COMMUNICATIONS INTERNATIONAL INC. SECURITIES LITIGATION

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding ("MOU") is made and entered into between the Lead Plaintiffs (on behalf of themselves and each of the Class Members), by and through Lead Counsel, and Qwest Communications International Inc., by and through its counsel. All capitalized terms in this MOU shall have the meanings specified for them in the *Stipulation of Partial Settlement* ("Stipulation"), which is attached as Exhibit A. Lead Plaintiffs and Qwest Communications International Inc. agree to execute an agreement substantially in form of the Stipulation provided that Lead Counsel prepares a Supplemental Agreement Regarding Requests for Exclusion, Plan of Allocation, the Exhibits to the Stipulation and related documents acceptable to Qwest Communications International Inc. The parties agree to perform all necessary actions to finalize and file the Stipulation and related documents as soon as reasonably possible.

IN WITNESS WHEREOF, the parties hereto have caused the Stipulation to be executed, by their duly authorized attorneys, dated as of October 31, 2005.

By: /s/ Michael J. Dowd

William S. Lerach
Patrick Coughlin
Keith Park
Michael J. Dowd
Thomas E. Egler
Lerach, Coughlin, Stoia, Geller,
Rudman & Robbins LLP
655 W. Broadway, Suite 1900
San Diego, CA 92101−3301

Lead Counsel

By: /s/ Jonathan D. Schiller

Jonathan D. Schiller
David R. Boyd
Alfred P. Levitt
Boies, Schiller & Flexner LLP
5301 Wisconsin Ave, NW
Suite 800
Washington, DC 20015

Counsel for Qwest Communication
International Inc.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

Civil Action No. 01−CV−1451−REB−CBS

(Consolidated with Civil Action Nos. 01−RB−1472, 01−RB−1527, 01−RB−1616. 01−RB−1799, 01−RB−1930, 01−RB−2083, 02−RB−333, 02−RB−374, 02−D−507, 02−RB−658, 02−RB−755, 02−RB−798, and 04−RB−238)

In re QWEST COMMUNICATIONS INTERNATIONAL INC. SECURITIES LITIGATION

STIPULATION OF PARTIAL SETTLEMENT

This Stipulation of Partial Settlement dated as of November __, 2005 (the "Stipulation"), is made and entered into pursuant to Rule 23 of the Federal Rules of Civil Procedure and contains the terms of a settlement by and among the Settling Parties to the above−entitled Litigation: (i) the Lead Plaintiffs (on behalf of themselves and each of the Class Members), by and through Lead Counsel; and (ii) the Settling Defendants, by and through their counsel of record in the Litigation. The Stipulation is intended by the Settling Parties to resolve fully, finally and forever discharge and settle the Released Claims, upon and subject to the terms and conditions hereof and subject to the approval of this Court. All capitalized terms in this Stipulation shall have the meanings specified for them herein.

I. THE LITIGATION

On July 27, 2001, New England Healthcare Employees Pension Fund filed a class action complaint, entitled *New England Health Care Employees Fund v. Qwest et al.*, Civil Action No. 01−N−1451−REB−CBS, in the United States District Court for the District of Colorado, alleging various violations of the federal securities laws. A number of similar class action complaints were subsequently filed in the United States District Court for the District of Colorado. Pursuant to the Private Securities Litigation Reform Act of 1995, all of the related class action complaints were consolidated under the first filed case No. 01−N−1451; New England Healthcare Employees Pension Fund, Clifford Mosher, Tejinder Singh, and Satpal Singh were appointed Lead Plaintiffs; and a consolidated class action complaint was filed. Lead Plaintiffs filed amended complaints on December 3, 2001, April 5, 2002, May 2, 2002, August 21, 2002, and February 6, 2004. In the Fifth Amended Complaint, the named defendants in the Litigation were Qwest Communications International Inc., Arthur Andersen LLP, Joseph Nacchio, Philip Anschutz, Robin Szeliga, Robert Woodruff, Stephen Jacobsen, Drake Tempest, Marc Weisberg, James Smith, Lewis Wilks, Craig Slater, Afshin Mohebbi, Gregory Casey, and Vinod Khosla. The causes of action asserted in the consolidated amended class action complaint were for violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Lead Plaintiffs sought to recover money and/or other relief on behalf of themselves and a putative class.

On November 4, 2002, Lead Plaintiffs moved for a temporary restraining order and a preliminary injunction to prevent Qwest from selling certain assets, or, in the

alternative, to place the proceeds from that sale in trust. Qwest opposed that motion. The Court denied Lead Plaintiffs' request for a temporary restraining order, and following supplemental briefing and a hearing at which both sides presented evidence, denied Lead Plaintiffs' request for a preliminary injunction.

Defendants moved to dismiss Lead Plaintiffs' various consolidated amended complaints, and Lead Plaintiffs opposed Defendants' motions. Defendants' motions to dismiss were granted in part and denied in part, with some Individual Defendants being dismissed from the Litigation. In other instances, the claims or allegations against Defendants were narrowed.

Those Defendants not dismissed from the Litigation filed answers denying all material allegations of Lead Plaintiffs' Fifth Amended Complaint and asserted various defenses. Lead Plaintiffs and Defendants engaged in extensive discovery, which has been coordinated with discovery in several other state and federal securities actions. For example, Qwest has produced more than 8,000,000 pages of documents, and Lead Plaintiffs and Defendants have conducted more than 50 depositions. Those depositions began in early 2005.

On March 14, 2005, Lead Plaintiffs filed a motion for class certification, which Defendants opposed. Upon Final Settlement Approval, this Stipulation renders Lead Plaintiffs' motion for class certification moot as to the Settling Defendants.

II. DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY

The Defendants have denied and continue to deny each and all of the claims and contentions alleged in the Litigation. The Defendants expressly have denied and

continue to deny all charges of wrongdoing or liability against them arising out of any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the Litigation. The Defendants also have denied and continue to deny, *inter alia*, the allegations that the Lead Plaintiffs or the Class have suffered any damages, and that the Lead Plaintiffs or the Class were harmed by the conduct alleged in the Litigation.

Nonetheless, the Settling Defendants have concluded that further conduct of the Litigation would be protracted and expensive, and that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in this Stipulation. The Settling Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases like this Litigation. The Settling Defendants have, therefore, determined that it is desirable and beneficial to them that the Litigation be settled in the manner and upon the terms and conditions set forth in this Stipulation.

This Stipulation, and any and all exhibits or documents referred to herein, or any terms or representations herein or therein, or any action taken to carry out this Stipulation, are not, and shall in no event be construed or be deemed to be, evidence of, or an admission or a concession by the Defendants of any fault, liability, or damages whatsoever. The Defendants deny any and all wrongdoing of any kind whatsoever and deny any liability to Lead Plaintiffs or the Class Members. The Defendants do not concede any infirmity in the defenses they have asserted in the Litigation, nor are any such defenses waived. It is the intent of Lead Plaintiffs and the Settling Defendants that this Stipulation not be used for any purpose of any kind other than to enforce the

provisions of this Stipulation or the provisions of any related agreement, release, or exhibit hereto, or in order to support a defense of *res judicata*, collateral estoppel, accord and satisfaction, release, or other theory of claim or issue preclusion or similar defense. Therefore, pursuant to this Stipulation, as ordered by this Court, and pursuant to Federal Rule of Evidence 408, any other Federal Rule of Evidence, the rules of evidence of the various states, the rules of evidence followed by any quasi−judicial bodies, including regulatory and self−regulatory organizations, and any other applicable law, rule or regulation, the Settling Parties agree that the fact of entering into or carrying out this Stipulation, the exhibits hereto, and any negotiations and proceedings related hereto, and the settlement itself, shall not be construed as, offered into evidence as, or deemed to be evidence of, an admission or concession of liability by or an estoppel against any Defendant, a waiver of any applicable statute of limitations or repose, and shall not be offered by a party hereto into evidence, or considered, in any action or proceeding against any Defendant in any judicial, quasi−judicial, administrative agency, regulatory or self−regulatory organization, or other tribunal, or proceeding for any purpose whatsoever, other than to enforce the provisions of this Stipulation or the provisions of any related agreement, release, or exhibit hereto, or in order to support a defense of *res judicata*, collateral estoppel, accord and satisfaction, release or other theory of claim or issue preclusion or similar defense.

Notwithstanding the foregoing, based upon the publicly available information at the time of this Stipulation, Settling Defendants agree that they will not contest that the Litigation was filed in good faith, was not frivolous, and is being settled voluntarily in an amount and manner that reasonably reflects the risks posed by the claims against the Settling Defendants collectively.

III. CLAIMS OF THE LEAD PLAINTIFFS AND BENEFITS OF SETTLEMENT

The Lead Plaintiffs believe that the claims asserted in the Litigation have merit and believe that the evidence developed to date supports the claims. However, the Lead Plaintiffs and Lead Counsel recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Litigation against the Settling Defendants through trial and appeals. The Lead Plaintiffs and Lead Counsel also have taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as this Litigation, as well as the difficulties and delays inherent in such litigation. The Lead Plaintiffs and Lead Counsel are also mindful of the inherent problems of proof under and possible defenses to the violations asserted in the Litigation. The Lead Plaintiffs and Lead Counsel believe that the settlement set forth in the Stipulation confers substantial benefits upon the Class Members. Based on their evaluation, the Lead Plaintiffs and Lead Counsel have determined that the settlement set forth in the Stipulation is in the best interests of the Class.

IV. TERMS OF STIPULATION AND AGREEMENT OF SETTLEMENT

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and among the Lead Plaintiffs (for themselves and the Class Members) and the Settling Defendants, by and through their respective counsel of record, that, subject to the approval of the Court, the Litigation and the Released Claims shall be finally and fully compromised, settled and released, and the Litigation shall be dismissed with prejudice, as to all Settling Defendants, upon and subject to the terms and conditions of this Stipulation, as follows.

1. Definitions

As used in the Stipulation the following terms have the meanings specified below:

1.1. “Authorized Claimant” means any Class Member whose claim for recovery has been allowed pursuant to the terms of the Stipulation

1.2. “Arthur Andersen LLP” means Arthur Andersen LLP, and all of its respective past and present subsidiaries, parents, successors and predecessors, and all of its current and former partners, members, principals, participating principals, national directors, managing or other agents, management personnel, officers, directors, shareholders, administrators, servants, employees, consultants, advisors, attorneys, accountants, representatives, successors and assigns, along with the heirs, spouses, executors, administrators, insurers, reinsurers, representatives, estates, successors and assigns of any such person or entities.

1.3. “Arthur Andersen Released Parties” means Arthur Andersen LLP, AWSC Société Coopérative, en liquidation, and all of their respective past and present subsidiaries, parents, successors and predecessors, member firms, affiliates, related entities, and divisions, and all of their respective current and former partners, members, principals, participating principals, national directors, managing or other agents, management personnel, officers, directors, shareholders, administrators, servants, employees, consultants, advisors, attorneys, accountants, representatives, successors

and assigns, along with the heirs, spouses, executors, administrators, insurers, reinsurers, representatives, estates, successors and assigns of any such person or entities.

1.4. “Claimant” means any Class Member who files a Proof of Claim in such form and manner, and within such time, as the Court shall prescribe.

1.5. “Claims Administrator” means Gilardi & Co. LLC.

1.6. “Class” means all persons who purchased or otherwise acquired Qwest publicly traded securities (including common stock, bonds, and options) from May 24, 1999 through July 28, 2002 (“Class Period”). Excluded from the Class are Defendants and any Persons affiliated with or related to any Defendant. For purposes of this Paragraph, the persons affiliated with or related to any Defendant are members of the immediate family of each Individual Defendant, any entity in which any Defendant has a controlling interest, officers and directors of Qwest and its subsidiaries and affiliates, partners, shareholders, and members of Arthur Andersen LLP, and the legal representatives, heirs, predecessors, successors and assigns of any such excluded party. Also excluded from the Class are those Persons who request exclusion from the Class in such form and manner, and within such time, as the Court shall prescribe. Also excluded from the Class is any current or former officer, director, employee, or agent of Qwest who has been sued by the United States Securities and Exchange Commission in connection with such Person’s affiliation with or conduct related to Qwest.

1.7. “Class Member” means a Person who falls within the definition of the Class.

1.8. “Defendants” means Qwest Communications International Inc., Arthur Andersen LLP, and the Individual Defendants.

1.9. “Effective Date” means the first date by which all of the events and conditions specified in ¶ 8.1 of the Stipulation have occurred.

1.10. “Escrow Agent” means Lead Counsel.

1.11. “Final” means: (i) if no appeal is timely filed, the expiration date of the time for the filing or noticing of an appeal from the Judgment; or (ii) if an appeal is timely filed, (a) the later of the date of final affirmance on an appeal of the Judgment, the expiration of the time for a petition for a writ of certiorari to review the affirmance, a denial of certiorari that has been timely sought or, if certiorari is granted, the date of final affirmance of the Judgment following review pursuant to that grant; or (b) the date of final dismissal of any appeal from the Judgment or the final dismissal of any proceeding on certiorari to review the Judgment.

1.12. “Final Settlement Approval” means an order by the United States District Court for the District of Colorado finally approving the terms of this Stipulation pursuant to FED.R.CIV.P. 23(e)(1)(A).

1.13. “Individual Defendants” means Joseph Nacchio, Philip Anschutz, Robin Szeliga, Robert Woodruff, Stephen Jacobsen, Drake Tempest, Marc Weisberg, James Smith, Lewis Wilks, Craig Slater, Afshin Mohebbi, Gregory Casey, and Vinod Khosla.

1.14. “Individual Settling Defendants” means Philip Anschutz, Robin Szeliga, Stephen Jacobsen, Drake Tempest, Marc Weisberg, James Smith, Lewis Wilks, Craig Slater, Afshin Mohebbi, Gregory Casey, and Vinod Khosla.

1.15. “Judgment” means the judgment to be rendered by the Court, substantially in the form attached hereto as Exhibit __.

1.16. “Lead Counsel” means Lerach, Coughlin, Stoia, Geller, Rudman & Robbins LLP, 655 W. Broadway, Suite 1900, San Diego, CA 92101−3301.

1.17. “Lead Plaintiffs” means New England Healthcare Employees Pension Fund, Satpal Singh, Tejinder Singh, and Clifford Mosher.

1.18. “Litigation” means *In re Qwest Communications Securities Litigation*, Civil Action No. 01−CV−1451−REB−CBS, including all putative class actions consolidated therein.

1.19. “Net Settlement Fund” means the Settlement Fund, together with any interest earned thereon, less (i) any taxes, (ii) the cash allocated to Lead Counsel for attorneys’ fees and expenses pursuant to any Fee and Expense Application (defined in ¶ 7.1, below) approved by the Court pursuant to ¶¶ 7.1 and 7.2 hereof, and (iii) the cash allocated to the Class Notice and Administration Fund pursuant to ¶ 2.8 hereof.

1.20. “Non−Settling Defendant” means Joseph P. Nacchio (“Nacchio”) and Robert S. Woodruff (“Woodruff”), or either of them. Nacchio and Woodruff are expressly excluded from the definitions of Qwest, Related Parties, Released Persons, Settling Defendants, and Settling Parties.

1.21. “Person” means an individual, corporation, partnership, limited partnership, limited liability partnership (LLP), limited liability corporation (LLC), association, joint stock company, estate, legal representative, trust, unincorporated association, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.

1.22. “Plan of Allocation” means a plan or formula of allocation of the Settlement Fund whereby the Net Settlement Fund shall be distributed to Authorized Claimants after payment of expenses of notice and administration of the settlement, Taxes and Tax Expenses and such attorneys’ fees, costs, expenses and interest as may be awarded by the Court. Any Plan of Allocation is not part of the Stipulation and the Settling Defendants and the Related Parties shall have no liability with respect thereto.

1.23. “Preliminary Settlement Approval” means an order by the United States District Court for the District of Colorado preliminarily approving the terms of this Stipulation and ordering that notice be issued to the Class pursuant to FED.R.CIV.P. 23(e)(1)(B).

1.24. “Qwest” means Qwest Communications International Inc., any and all successors, subsidiaries, and affiliates of Qwest Communications International Inc., and any and all current and former officers, directors, employees and agents of any of them, as well as any predecessors of Qwest (including but not limited to U S WEST and any successors, subsidiaries, and affiliates thereof) and their successors, subsidiaries, and affiliates, and any and all current and former officers, directors, employees and agents of any of them. Notwithstanding the foregoing, neither Nacchio nor Woodruff is included in the definition of Qwest.

1.25. “Related Parties” means each of a Settling Defendant’s past or present directors, officers, partners, members, employees, controlling shareholders, attorneys,

accountants or auditors, banks or investment banks, advisors, personal or legal representatives, insurers, reinsurers, predecessors, successors, parents, subsidiaries, divisions, assigns, spouses, heirs, related or affiliated entities, any partnership in which a Settling Defendant is a general or limited partner, any entity in which a Settling Defendant has a controlling interest, any member of an Individual Settling Defendant's immediate family, or any trust or foundation of which any Settling Defendant is the settlor or which is for the benefit of any Individual Settling Defendant and/or member(s) of his or her family. Notwithstanding the foregoing, neither Nacchio nor Woodruff is included in the definition of Related Parties.

1.26. "Released Claims" shall collectively mean all claims, demands, rights, liabilities and causes of action of every nature and description whatsoever, whether based in law or equity, on federal, state, local, foreign, statutory or common law, or any other law, rule, or regulation (including, but not limited to, all claims arising out of or relating to any acts, omissions, disclosures, public filings, registration statements, financial statements, audit opinions, or statements by the Settling Defendants, including without limitation, claims for negligence, gross negligence, constructive or actual fraud, negligent misrepresentation, conspiracy, or breach of fiduciary duty), whether known or unknown, whether or not concealed or hidden, accrued or not accrued, foreseen or unforeseen, matured and not matured, that were asserted or that could have been asserted directly, indirectly, representatively or in any other capacity, at any time, in any forum by Lead Plaintiffs, the Class Members, or the successors or assigns of any Lead Plaintiff or Class Member, or any of them against the Released Persons arising out of,

based upon, or related in any way to: (a) the purchase, acquisition, sale, or disposition of Qwest securities by any Lead Plaintiffs or any Class Member during the Class Period and the allegations that were made or could have been made in the Litigation; (b) the purchase or other acquisition of, the retention of, the sale or other disposition of, or any other transaction involving Qwest securities by any of the Released Persons during the Class Period; or (c) the settlement or resolution of the Litigation (including, without limitation, any claim for attorneys' fees by Lead Plaintiffs or any Class Member). Released Claims shall also include claims related to any tax effects or tax liabilities (including any interest, penalties and representation costs) arising out of this Stipulation or any payment or transfer made pursuant to this Stipulation. Released Claims shall also include Unknown Claims otherwise subject to this provision. Released Claims shall not include the claims asserted in the Second Amended and Consolidated Complaint filed in the United States District Court for the District of Colorado on May 21, 2003 in *In re Qwest Savings and Retirement Plan ERISA Litigation* 02−CV−00464−REB−CBS (and all cases consolidated therein).

1.27. "Released Persons" means each and all of the Settling Defendants and their Related Parties, and the Arthur Andersen Released Parties. Notwithstanding the foregoing, neither Nacchio nor Woodruff is included in the definition of Released Persons.

1.28. "SEC Distribution Fund" means those funds paid by Qwest Communications International Inc. pursuant to the Final Judgment as to Defendant Qwest Communications International Inc. in *Securities and Exchange Commission v.*

Qwest Communications International Inc., Civil Action No. 04−7−2179 (Oct. 21, 2004), into an account in the Court Registry Investment System initially established in *Securities and Exchange Commission v. Augustine Cruciotti*, Civil Action No. 04−D−1267 (MJW) (D. Colo.), that are made available for distribution to the Class pursuant to the Plan of Allocation, together with such other funds paid into that same account by other Persons pursuant to any separate final judgments or agreements that those Persons have entered into or may enter into with the Securities and Exchange Commission that are also made available for distribution to the Class pursuant to the Plan of Allocation.

1.29. "Settlement Fund" means the principal amount of $400,000,000.00 (FOUR HUNDRED million dollars) in cash plus all interest earned thereon pursuant to this Stipulation and the SEC Distribution Fund.

1.30. "Settling Defendants" means, collectively, Qwest, Arthur Andersen LLP, and each of the Individual Settling Defendants. Notwithstanding the foregoing, neither Nacchio nor Woodruff is included in the definition of Settling Defendant.

1.31. "Settling Parties" means, collectively, each of the Settling Defendants and the Lead Plaintiffs on behalf of themselves and the Class Members. Notwithstanding the foregoing, neither Nacchio nor Woodruff is included in the definition of Settling Parties.

1.32. "Unknown Claims" means any claims that any Class Member or Lead Plaintiffs do not know or suspect to exist in his, her, its or their favor at the time of the release of the Released Persons which, if known by him, her, it, or them might have affected his, her, its or their settlement with and release of the Released Persons, or

might have affected his, her, its, or their decision not to object to this settlement. With respect to any and all Released Claims, the Settling Parties stipulate and agree that, upon the Effective Date, the Lead Plaintiffs shall expressly, and each of the Class Members shall be deemed to have, and by operation of the Judgment shall have, expressly waived the provisions, rights and benefits of California Civil Code §1542, which provides:

> **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.**

The Lead Plaintiffs shall expressly, and each of the Class Members shall be deemed to have, and by operation of the Judgment shall have, expressly waived any and all provisions, rights and benefits conferred by any law, or principle of common law, which is similar, comparable or equivalent to California Civil Code §1542. The Lead Plaintiffs and Class Members may hereafter discover facts in addition to or different from those that he, she, it or they now know or believe to exist or to be true with respect to the subject matter of the Released Claims, but the Lead Plaintiffs shall have, and each Class Member, upon the Effective Date, and by operation of the Judgment shall be deemed to have, fully, finally, and forever settled and released any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non−contingent, whether or not concealed or hidden, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct that is negligent, intentional, with or without malice, or a

breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. The Lead Plaintiffs acknowledge, and the Class Members shall be deemed by operation of the Judgment to have acknowledged, that the foregoing waiver was separately bargained for and a material element of the settlement of which this release is a part.

2. The Settlement

a. The Settlement Fund

2.1 Qwest Communications International Inc. (on behalf of itself and the Settling Defendants and Released Persons) shall cause to be transferred $100,000,000.00 (one hundred million) in cash to an account controlled by the Escrow Agent no later than 30 days after the Preliminary Settlement Approval. If all or part of such $100 million is not transferred to an account controlled by the Escrow Agent within 30 days after the Preliminary Settlement Approval, such un−transferred amounts shall accrue interest at rate of 7% annually until such time as the entire $100 million is transferred. Further, if all or part of such $100 million is not transferred to an account controlled by the Escrow Agent within 30 days after the Preliminary Settlement Approval, Lead Plaintiffs may terminate this settlement; provided however, that the Lead Plaintiffs shall provide Qwest Communications International Inc. written notice of their intent to terminate, and allow Qwest Communications International Inc. 30 days to cure. Qwest Communications International Inc. (on behalf of itself and the Settling Defendants and Released Persons) shall cause to be transferred a second $100,000,000.00 (one hundred million) in cash to an account controlled by the Escrow

Agent no later than 30 days after Final Settlement Approval. If all or part of such $100 million is not transferred to an account controlled by the Escrow Agent within 30 days after Final Settlement Approval, such un−transferred amounts shall accrue interest at rate of 7% annually until such time as the entire $100 million is transferred. Further, if all or part of such $100 million is not transferred to an account controlled by the Escrow Agent within 30 days after Final Settlement Approval, the Lead Plaintiffs may terminate this settlement; provided however, that the Lead Plaintiffs shall provide Qwest Communications International Inc. written notice of their intent to terminate, and allow Qwest Communications International Inc. 30 days to cure. Qwest Communications International Inc. (on behalf of itself and the Settling Defendants and Released Persons) shall cause to be transferred another $200,000,000.00 (two hundred million) in cash plus interest that shall accrue from 30 days after Final Settlement Approval at a rate of 3.75% annually to an account controlled by the Escrow Agent by January 15, 2007. If all or part of such $200 million plus interest that shall accrue from 30 days after Final Settlement Approval at a rate of 3.75% annually is not transferred to an account controlled by the Escrow Agent by January 15, 2007, such un−transferred amounts shall accrue interest at a rate of 7% annually until such time as the entire $200 million plus interest that shall accrue from 30 days after Final Settlement Approval at a rate of 3.75% annually is transferred. Further, if all or part of such $200 million plus interest that shall accrue from 30 days after Final Settlement Approval at a rate of 3.75% annually is not transferred to an account controlled by the Escrow Agent by January 15, 2007, the Lead Plaintiffs may terminate this settlement; provided however, that the Lead

Plaintiffs shall provide Qwest Communications International Inc. written notice of their intent to terminate, and allow Qwest Communications International Inc. 30 days to cure. Notwithstanding any provision of this Stipulation, no Individual Settling Defendant is obligated to make any of the payments provided for hereunder.

2.2 Lead Plaintiffs and Qwest Communications International Inc. shall use their best efforts to persuade the Securities and Exchange Commission to apply to the United States District Court for the District of Colorado for an order authorizing and requiring that the SEC Distribution Fund be transferred to an account controlled by the Escrow Agent for distribution pursuant to this Stipulation and the Plan of Allocation. If the Securities and Exchange Commission advises the Settling Parties that it will not apply to the United States District Court for the District of Colorado for an order authorizing and requiring that the SEC Distribution Fund be transferred to an account controlled by the Escrow Agent pursuant to the terms of the Stipulation, if the United States District Court does not approve such application, or, if for any other reason, the SEC Distribution Fund is not distributed to the Class pursuant to this Stipulation and Plan of Allocation, Lead Plaintiffs shall have the right, but shall not be required to, withdraw from and terminate this Stipulation. Lead Counsel shall not apply for a fee based on the SEC Distribution Fund.

2.3 It is expressly acknowledged that Arthur Andersen LLP has agreed to contribute $10 million (ten million dollars) in connection with and as full consideration for this settlement and shall have no obligation to make any additional contribution either to Lead Plaintiffs, the Class, or any of the Settling Defendants in connection with this Stipulation.

b. The Escrow Agent

2.4 The Escrow Agent may invest the Settlement Fund deposited pursuant to ¶¶ 2.1 and 2.2 hereof in instruments backed by the full faith and credit of the United States Government or fully insured by the United States Government or an agency thereof and shall reinvest the proceeds of these instruments as they mature in similar instruments at their then−current market rates. The Escrow Agent shall bear all risks related to investment of the Settlement Fund.

2.5 The Escrow Agent shall not disburse the Settlement Fund except as provided in the Stipulation, by an order of the Court, or with the written agreement of counsel for Qwest Communications International Inc.

2.6 Subject to further order and/or direction as may be made by the Court, the Escrow Agent is authorized to execute such transactions on behalf of the Class Members as are consistent with the terms of the Stipulation.

2.7 All funds held by the Escrow Agent shall be deemed and considered to be in *custodia legis* of the Court, and shall remain subject to the jurisdiction of the Court, until such time as such funds shall be distributed pursuant to the Stipulation and/or further order(s) of the Court.

2.8 Within five (5) days after payment of the initial $100 million to the account controlled by the Escrow Agent pursuant to ¶ 2.1 hereof, the Escrow Agent may establish a “Class Notice and Administration Fund,” and may deposit up to $5 million

from the Settlement Fund in it. The Class Notice and Administration Fund may be used by Lead Counsel to pay costs and expenses reasonably and actually incurred in connection with providing notice to the Class, locating Class Members, soliciting claims, assisting with the filing of claims, administering and distributing the Net Settlement Fund to Authorized Claimants, processing Proof of Claim and Release forms, and paying escrow fees and costs, if any. The Class Notice and Administration Fund may also be invested and earn interest as provided for in ¶ 2.4 of this Stipulation.

3. Taxes

3.1 (a) Settling Parties and the Escrow Agent agree to treat the Settlement Fund as being at all times a "qualified settlement fund" within the meaning of Treas. Reg. §1.468B−1. In addition, the Escrow Agent shall timely make such elections as necessary or advisable to carry out the provisions of this ¶ 3.1, including the "relation−back election" (as defined in Treas. Reg. §1.468B−1) back to the earliest permitted date. Such elections shall be made in compliance with the procedures and requirements contained in such regulations. It shall be the responsibility of the Escrow Agent to timely and properly prepare and deliver the necessary documentation for signature by all necessary parties, and thereafter to cause the appropriate filing to occur.

(b) For the purpose of § 468B of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, the "administrator" shall be the Escrow Agent. The Escrow Agent shall timely and properly file all informational and other tax reports and returns necessary or advisable with respect to the Settlement Fund (including without limitation the returns described in Treas. Reg. §1.468B−2(k)).

Such returns (as well as the election described in ¶ 3.1(a) hereof) shall be consistent with this ¶ 3.1 and in all events shall reflect that all Taxes (including but not limited to any federal, state, or local Taxes, and any estimated Taxes, interest or penalties) on the income earned by the Settlement Fund shall be paid out of the Settlement Fund as provided in ¶ 3.1(c) hereof.

(c) All (i) Taxes (including but not limited to any federal, state, or local Taxes, and any estimated Taxes, interest or penalties) arising with respect to the income earned by the Settlement Fund, including any Taxes or tax detriments that may be imposed upon the Settling Defendants or their counsel with respect to any income earned by the Settlement Fund for any period during which the Settlement Fund does not qualify as a "qualified settlement fund" for federal or state income tax purposes ("Taxes"), and (ii) expenses and costs incurred in connection with the operation and implementation of this ¶ 3.1 (including, without limitation, expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to filing (or failing to file) the reports and returns described in this ¶ 3.1) ("Tax Expenses"), shall be paid out of the Settlement Fund; in all events the Released Persons shall have no liability or responsibility for the Taxes or the Tax Expenses. The Escrow Agent shall indemnify and hold each of the Released Persons harmless for Taxes and Tax Expenses (including, without limitation, Taxes payable by reason of any payment made to or for the benefit of the Class hereunder, and Taxes payable by reason of any such indemnification). Further, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the Settlement Fund and shall be timely paid by the

Escrow Agent out of the Settlement Fund without prior order from the Court and the Escrow Agent shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution to Authorized Claimants any funds necessary to pay such amounts including the establishment of adequate reserves for any Taxes and Tax Expenses (as well as any amounts that may be required to be withheld under Treas. Reg. §1.468B−2(l)(2)); neither the Settling Defendants nor their counsel are responsible nor shall they have any liability therefor. Nothing in this ¶ 3.1 or any part of this Stipulation shall constitute or be considered to be tax advice by the Released Persons or any of their respective counsel. The Settling Parties agree to cooperate with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this ¶ 3.1.

(d) Released Persons have made no representation or warranty with respect to the tax treatment by any Lead Plaintiffs or Class Member of any payment or transfer made pursuant to this Stipulation or derived from or made pursuant to the Settlement Fund.

(e) For the purpose of this ¶ 3.1, references to the Settlement Fund shall include both the Settlement Fund and the Class Notice and Administration Fund and shall also include any earnings thereon.

4. Notice Order and Settlement Hearing

4.1 As soon as practical following execution of the Stipulation, Lead Counsel shall submit the Stipulation together with its Exhibits to the Court and shall apply for entry of an order (the "Notice Order"), substantially in the form of Exhibit A hereto,

requesting, *inter alia*, Preliminary Settlement Approval set forth in the Stipulation, and approval for the mailing of a settlement notice (the "Notice") and publication of a summary notice, substantially in the forms of Exhibits _____ and _____ attached hereto. The Notice shall include the general terms of the settlement set forth in the Stipulation, the proposed Plan of Allocation, the general terms of the Fee and Expense Application, and the date of the Settlement Hearing as defined below.

4.2 Lead Counsel shall request that, after notice is given, the Court hold a hearing (the "Settlement Hearing") and provide Final Settlement Approval for the Litigation with respect to the Settling Defendants as set forth herein. At or after the Settlement Hearing, Lead Counsel also will request that the Court approve the proposed Plan of Allocation and the Fee and Expense Application.

5. Releases

5.1 Upon the Effective Date, Lead Plaintiffs and each of the Class Members shall be deemed to have, and by operation of the Judgment shall have: (i) fully, finally, and forever released, relinquished and discharged all Released Claims (including Unknown Claims) against the Released Persons, whether or not such Class Member executes and delivers the Proof of Claim and Release, (ii) covenanted not to sue any of the Released Persons or otherwise to assert, directly or indirectly, any of the Released Claims against any of the Released Persons, and (iii) agreed to be forever barred and enjoined from doing so, in any court of law or equity, or in any other forum.

5.2 The Proof of Claim and Release to be executed by Class Members shall release all Released Claims against the Released Persons and shall be substantially in the form contained in Exhibit A−2 attached hereto.

5.3 Upon the Effective Date, each of the Released Persons shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, relinquished and discharged each and all of the Lead Plaintiffs, Class Members, and Lead Counsel from all claims (including Unknown Claims), arising out of, relating to, or in connection with the institution, prosecution, assertion, settlement, or resolution of the Litigation or the Released Claims.

5.4 Upon the Effective Date, Qwest and its Related Parties and the Arthur Andersen Released Parties shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, relinquished and discharged one another from all claims (including Unknown Claims), arising out of, relating to, or in connection with the Released Claims.

6. Administration and Calculation of Claims, Final Awards and Supervision and Distribution of Settlement Fund

6.1 The Claims Administrator, subject to such supervision and direction of the Court and/or Lead Counsel as may be necessary or as circumstances may require, shall administer and calculate the claims submitted by Class Members and shall oversee distribution of the Net Settlement Fund to Authorized Claimants.

6.2 The Settlement Fund shall be applied as follows:

(a) to pay Lead Counsel's attorneys' fees and expenses with interest thereon (the "Fee and Expense Award"), and to pay Lead Plaintiffs' expenses (including lost wages) incurred in representing the Class if and to the extent allowed by the Court;

(b) to pay all the costs and expenses reasonably and actually incurred in connection with providing notice, locating Class Members, soliciting Class claims, assisting with the filing of claims, administering and distributing the Net Settlement Fund to Authorized Claimants, processing Proof of Claim and Release forms and paying escrow fees and costs, if any;

(c) to pay the Taxes and Tax Expenses described in ¶ 3.1 hereof; and

(d) to distribute the Net Settlement Fund to Authorized Claimants as allowed by the Stipulation, the Plan of Allocation, and the Court.

6.3 Upon the Effective Date and thereafter, and in accordance with the terms of the Stipulation, the Plan of Allocation, or such further approval and further order(s) of the Court as may be necessary or as circumstances may require, the Net Settlement Fund shall be distributed to Authorized Claimants, subject to and in accordance with ¶¶ 6.4−6.9 hereof.

6.4 Within ninety (90) days after the mailing of the Notice or such other time as may be set by the Court, each Person claiming to be an Authorized Claimant shall be required to submit to the Claims Administrator a completed Proof of Claim and Release, substantially in the form of Exhibit ____attached hereto, signed under penalty of perjury and supported by such documents as are specified in the Proof of Claim and Release and as are reasonably available to the Authorized Claimant.

6.5 Except as otherwise ordered by the Court, all Class Members who fail timely to submit a Proof of Claim and Release within such period, or such other period as may be ordered by the Court, or otherwise allowed, shall be forever barred from receiving any payments pursuant to the Stipulation and the settlement set forth herein, but will in all other respects be subject to and bound by the provisions of the Stipulation, the releases contained herein, and the Judgment. Notwithstanding the foregoing, Lead Counsel may, in their discretion, accept for processing late submitted claims so long as the distribution of the Net Settlement Fund to Authorized Claimants is not materially delayed.

6.6 The Net Settlement Fund shall be distributed to the Authorized Claimants substantially in accordance with a Plan of Allocation to be described in the Notice and approved by the Court. If any funds remain in the Net Settlement Fund by reason of un−cashed checks or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distribution checks, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such funds shall be re−distributed to Class Members who have cashed their checks and who would receive at least $10.00 from such re−distribution, after payment of any taxes, and unpaid costs or fees incurred in administering the Net Settlement Fund for such re−distribution. If after six months after such re−distribution any funds shall remain in the Net Settlement fund, then such balance shall be returned to Colorado−based non−sectarian, not−for−profit 501(c)(3) organization(s) providing legal services or otherwise in the appropriate public interest designated by Lead Counsel.

6.7 The Released Persons shall have no responsibility for, interest in, or liability whatsoever with respect to the investment or distribution of the Net Settlement Fund, the Plan of Allocation, the determination, administration, or calculation of claims, the payment or withholding of Taxes, or any losses incurred in connection therewith, except that Lead Counsel agrees to confer with counsel for Qwest prior to submission of the Plan of Allocation.

6.8 No Person shall have any claim against Lead Counsel or the Claims Administrator, or their counsel, based on distributions made substantially in accordance with the Stipulation and the settlement contained therein, the Plan of Allocation, or further order(s) of the Court. No Person shall have any claim whatsoever against Settling Defendants, Settling Defendants' counsel, or any Released Persons arising from or related to any distributions made, or not made, from the Settlement Fund.

6.9 It is understood and agreed by the Settling Parties that any proposed Plan of Allocation of the Net Settlement Fund including, but not limited to, any adjustments to an Authorized Claimant's claim set forth therein, is not a part of the Stipulation and is to be considered by the Court separately from the Court's consideration of the fairness, reasonableness and adequacy of the settlement set forth in the Stipulation, and any order or proceeding relating to the Plan of Allocation shall not operate to terminate or cancel the Stipulation or affect the finality of the Court's Judgment approving the Stipulation and the settlement set forth therein, or any other orders entered pursuant to the Stipulation.

7. Lead Counsel's Attorneys' Fees and Reimbursement of Expenses

7.1 Lead Counsel may submit an application or applications (the "Fee and Expense Application") for distributions to them from the Settlement Fund for an award of attorneys' fees, and reimbursement of expenses incurred in connection with prosecuting the Litigation, plus any interest on such attorneys' fees and expenses at the same rate and for the same periods as earned by the Settlement Fund (until paid). Lead Counsel reserve the right to make additional applications for fees and expenses incurred. The Lead Plaintiffs may submit an application for reimbursement of their expenses (including lost wages) incurred in representing the Class in the Litigation.

7.2 The attorneys' fees, expenses and costs, as awarded by the Court, shall be paid to Lead Counsel from the Settlement Fund, as ordered, immediately after the Court executes an order awarding such fees and expenses. Lead Counsel shall allocate the attorneys' fees amongst other Plaintiffs' counsel in a manner in which they in good faith believe reflects the contributions of such counsel to the prosecution and settlement of the Litigation. In the event that (i) the Effective Date does not occur, (ii) the judgment and/or order making such fee and expense award is reversed or modified, (iii) the Stipulation is canceled or terminated for any reason, or (iv) if the dismissal with prejudice of this Litigation does not become Final, and in the event that the fee and expense award has been paid to any extent, then Lead Counsel shall within five (5) business days from receiving notice from Qwest Communications International Inc. or

from a court of appropriate jurisdiction, refund to the Settlement Fund the fees, expenses and costs previously paid to them from the Settlement Fund plus interest thereon at the same rate as earned on the Settlement Fund in an amount consistent with such reversal or modification. Each Plaintiffs' counsel's law firm as a condition of receiving such fees and expenses, on behalf of itself and each partner and/or shareholder of it, agrees that the law firm and its partners and/or shareholders are subject to the jurisdiction of the Court for the purpose of enforcing the provisions of this paragraph and such other agreement between Qwest Communications International Inc. and Lead Counsel. Without limitation, each such law firm and its partners and/or shareholders agree that the Court may, upon application of Qwest Communications International Inc., summarily issue orders including, without limitation, judgments and attachment orders and may make appropriate findings of or sanctions for contempt, against them or any of them should such law firm fail timely to repay such fees and expenses.

7.3 The procedure for and the allowance or disallowance by the Court of any applications by Lead Counsel for attorneys' fees and expenses to be paid out of the Settlement Fund are not part of the settlement set forth in the Stipulation, and are to be considered by the Court separately from the Court's consideration of the fairness, reasonableness and adequacy of the settlement set forth in the Stipulation, and any order or proceeding relating to the Fee and Expense Application, or any appeal from any order relating thereto or reversal or modification thereof, shall not operate to terminate or cancel the Stipulation, or affect or delay the finality of the Judgment approving the Stipulation and the settlement of the Litigation set forth therein.

7.4 Settling Defendants and their Related Parties shall have no responsibility for the allocation among Plaintiffs' counsel, and/or any other Person who may assert some claim thereto, of any fee and expense award that the Court may make in the Litigation.

8. Conditions of Settlement, Effect of Disapproval, Cancellation or Termination

8.1 The Effective Date of the Stipulation shall be conditioned on the occurrence of the last to occur of the following events:

(a) Qwest Communications International Inc. has timely made or caused to be made its contributions to the Settlement Fund as required by ¶¶ 2.1 and 2.2 hereof;

(b) the Court has entered the Notice Order, as required by ¶ 4.1 hereof;

(c) the Court has entered the Judgment, attached hereto as Exhibit B, or a judgment substantially similar in all material respects to the Judgment attached hereto as Exhibit B;

(d) the Judgment has become Final; and

(e) Qwest Communications International Inc. has waived or has not timely asserted any right to withdraw from the Settlement, including those rights to terminate provided under ¶¶ 8.2 and 11 hereof.

8.2 Simultaneously herewith, Qwest Communications International Inc. and the Lead Plaintiffs (individually and on behalf of the Class) have entered into a "Supplemental Agreement Regarding Requests for Exclusion" setting forth, among other things, certain conditions under which this Stipulation may be withdrawn or terminated by Qwest Communications International Inc. The Supplemental Agreement Regarding Requests for Exclusion shall not be filed prior to the Settlement Hearing unless a dispute arises as to its terms or Qwest Communications International Inc. exercises its rights thereunder. In the event of a withdrawal from this Stipulation pursuant to the Supplemental Agreement Regarding Requests for Exclusion, this Stipulation shall become null and void and of no further force and effect and the provisions of ¶ 8.4 hereof shall apply.

8.3 Upon the occurrence of all of the events referenced in ¶ 8.1 hereof, any and all remaining interest or right of Settling Defendants in or to the Settlement Fund, if any, shall be absolutely and forever extinguished. If all of the conditions specified in ¶ 8.1 hereof are not met, then the Stipulation shall be canceled and terminated subject to ¶¶ 8.4 hereof unless Lead Counsel and counsel for Settling Defendants mutually agree in writing within thirty (30) days of their receipt of notice of any failed condition to proceed with the Stipulation.

8.4 Unless otherwise ordered by the Court, in the event the Stipulation shall terminate, be canceled, or not become effective for any reason, within five (5) business days after written notification of such event is sent by counsel for Qwest Communications International Inc. to the Escrow Agent, the Settlement Fund, plus

accrued interest (except the portion constituting the SEC Distribution Fund), and the Class Notice and Administration Fund, plus accrued interest, shall be refunded to Qwest Communications International Inc., less expenses due and owing as set forth in ¶ 2.8, and the SEC Distribution Fund, plus accrued interest, shall be refunded to the account in the Court Registry Investment System from which the SEC Distribution Fund came or otherwise treated in accordance with written instructions provided by the Securities and Exchange Commission, provided, however, that neither the Lead Plaintiffs nor Lead Counsel shall have any obligation to repay any amounts actually and properly disbursed from the Class Notice and Administration Fund, and that any expenses already incurred and properly chargeable to the Class Notice and Administration Fund pursuant to ¶ 2.8 hereof and Taxes and Tax Expenses at the time of such termination or cancellation but that have not been paid, shall be paid or retained in escrow by the Escrow Agent in accordance with the terms of the Stipulation prior to the balance being refunded. At the request of Qwest, the Escrow Agent or its designee shall apply for any tax refund owed on the Settlement Fund and pay the proceeds to Qwest Communications International Inc.

9. Class Certification

For purposes of this Stipulation only, the Settling Parties will stipulate to certification of the Class as defined herein. Settling Defendants expressly reserve the right to contest class certification in the event this Settlement does not become effective for any reason. This Stipulation, whether or not consummated, and any proceedings taken pursuant to it, shall not be construed as or received in evidence as an admission, concession or presumption that class certification is appropriate in this action.

10. Preferences, Voidable Transfers, or Fraudulent Transfers

The Settling Parties agree that, with respect to any Settling Defendant, in the event of a final order of a court of competent jurisdiction, not subject to any further proceedings, determining the transfer of the Settlement Fund, or any portion thereof, by or on behalf of such Settling Defendant to be a preference, voidable transfer, fraudulent transfer or similar transaction under Title 11 of the United States Code (Bankruptcy) or applicable state law and any portion thereof is required to be refunded and such amount is not promptly deposited in the Settlement Fund by any other Settling Defendant, then, at the election of Class Plaintiffs' Counsel, as to such Settling Defendant only, the releases given and the Judgments entered in favor of such Settling Defendant pursuant to the Stipulation shall be null and void. The releases given and the Judgments entered in favor of other Settling Defendants shall remain in full force and effect.

11. Limitations On Subsequent Claims Against Released Parties

11.1 In accordance with Section 21D−4(f)(7)(A) of the Private Securities Litigation Reform Act of 1995, 15 U.S.C. § 78u−4(f)(7)(A), each of the Released Persons by virtue of the Judgment is discharged from all claims for contribution that have been or may hereafter be brought by or on behalf of any of the Non−Settling Defendants or any of the Settling Defendants based upon, relating to, or arising out of the Released Claims. Accordingly, (i) the Non−Settling Defendants are hereby permanently barred, enjoined, and restrained from commencing, prosecuting, or asserting any such claim for

contribution against any Released Person based upon, relating to, or arising out of the Released Claims, and (ii) the Released Persons are hereby permanently barred, enjoined, and restrained from commencing, prosecuting, or asserting any claim for contribution against the Non−Settling Defendants based upon, relating to, or arising out of the Released Claims. For purposes of Section 11 of this Stipulation only, Non−Settling Defendants shall include any Person who Lead Plaintiffs may hereafter sue based upon, relating to, or arising out of the Released Claims ("Reform Act Bar Order"). Inclusion of the Reform Act Bar Order in the Judgment is material to Settling Defendants' decision to participate in this Stipulation.

11.2 The Non−Settling Defendants and the Settling Defendants are hereby permanently barred, enjoined, and restrained from commencing, prosecuting, or asserting any claim, if any, however styled, whether for indemnification, contribution, or otherwise and whether arising under state, federal, or common law, against the Released Persons based upon, arising out of, or relating to the Released Claims; and the Released Persons are permanently barred, enjoined, and restrained from commencing, prosecuting, or asserting any other claim, if any, however styled, whether for indemnification, contribution, or otherwise and whether arising under state, federal, or common law, against the Non−Settling Defendants based upon, arising out of, or relating to the Released Claims (the "Complete Bar Order"). In the event that the Judgment fails to contain a Complete Bar Order substantially in conformity with this ¶ 11.2, such failure shall not be a basis for Lead Plaintiffs or any Class Member to terminate the settlement.

11.3 To the extent (but only to the extent) not covered by the Reform Act Bar Order and/or the Complete Bar Order, the Lead Plaintiffs, on behalf of themselves and the Class, further agree that they will reduce or credit any settlement or judgment (up to the amount of such settlement or judgment) they may obtain against a Non−Settling Defendant by an amount equal to the amount of any settlement or final, non−appealable judgment that a Non−Settling Defendant may obtain against any of the Released Persons based upon, arising out of, relating to, or in connection with the Released Claims or the subject matter thereof. In the event that a settlement is reached between Lead Plaintiffs or the Class and a Non−Settling Defendant, or final judgment is entered in favor of Lead Plaintiffs or the Class against a Non−Settling Defendant before the resolution of that Non−Settling Defendant's potential claims against any Released Person, any funds collected on account of such settlement or judgment shall not be distributed, but shall be retained by the Escrow Agent pending the resolution of any potential claim by the Non−Settling Defendant claim against such Released Person(s) as provided in Paragraphs 11.3 and 11.4 of this Stipulation. In the event a Non−Settling Defendant asserts a claim against a Released Person related to any claim or judgment asserted against that Non−Settling Defendant, or settlement entered into by that Non−Settling Defendant, arising from or related to a claim asserted against that Non−Settling Defendant by Lead Plaintiffs or any other Class Member, Qwest Communications International Inc. agrees to pay the reasonable costs of defending any such claim that may be asserted against any Released Person by any Non−Settling Defendant, and any such Released Person shall defend against such claim in good faith and will not settle

such claim without the prior written consent of Lead Counsel and Qwest Communications International Inc., which consent shall not be unreasonably withheld. Inclusion of this Paragraph 11.3 in the Judgment is material to Settling Defendants' decision to participate in this Stipulation.

11.4 The Class will not settle any claim or judgment against a Non−Settling Defendant without obtaining from the Non−Settling Defendant the release of any and all claims the Non−Settling Defendant may have against any of the Released Persons based upon, arising out of, relating to or in connection with the Released Claims or the subject matter thereof, provided that each Settling Defendant shall execute and provide to the Non−Settling Defendant a release in a form that is satisfactory both to the Settling Defendants and the Non−Settling Defendant. Inclusion of this Paragraph 11.4 in the Judgment is material to Settling Defendants' decision to participate in this Stipulation.

12. Miscellaneous Provisions

12.1 Notwithstanding any other provision in this Stipulation, including ¶¶ 5.4, 11.1, 11.2, 11.3, and 11.4, this Stipulation shall not cause the Released Persons and Non−Settling Defendants to release the following potential claims between or among themselves:

(a) Claims that arise from or relate to claims asserted by those Persons who request exclusion from the Class in such form and manner, and within such time, as the Court shall prescribe, and who assert claims that would have been Released Claims under this Stipulation but for the Person's exclusion from the Class;

(b) Claims that arise from or relate to claims asserted in *In re Qwest Savings and Retirement Plan ERISA Litigation* 02−CV−00464−REB−CBS, including all actions consolidated therein.

(c) Any claims, rights or obligations concerning advancement of legal fees and expenses, or the recovery of legal fees and expenses advanced or that may be advanced, by Qwest Communications International Inc. or any subsidiary or affiliate of Qwest Communications International Inc. to the Non−Settling Defendants or any Released Person.

(d) (i) the November 12, 2003 Definitive Settlement Agreement and all documents attached thereto and/or contemplated thereby relating to the settlement among Qwest Communications International Inc. and certain Qwest Communications International Inc. directors and officers and fiduciary liability insurance carriers, or (ii) the Insureds Trust Agreement (as amended) made and entered into as of June 1, 2004, by and among U.S. Bank Trust Association, U.S. Bank Trust National Association, the Honorable Sam C. Pointer, Qwest Communications International Inc. and Individual Beneficiaries as defined therein.

(e) Enforcement of any breach of this Stipulation.

12.2 The Settling Parties (a) acknowledge that it is their intent to consummate this Stipulation, and (b) agree to cooperate to the extent reasonably necessary to effectuate and implement all terms and conditions of the Stipulation. Further, Qwest Communications International Inc. and Arthur Andersen LLP will enter into an agreement with Lead Counsel providing for Qwest Communications International Inc.

and Arthur Andersen LLP (a) to attempt to make certain current and former employees available in connection with Lead Plaintiffs' continued prosecution of the above−captioned matter, and (b) to make certain other discovery materials available consistent with its defense of any other litigation or other proceeding.

12.3 The Settling Parties intend this settlement to be a final and complete resolution of all disputes between them with respect to the Litigation. The Stipulation compromises claims that are contested and shall not be deemed an admission by any Settling Party as to the merits of any claim or defense. The Settling Parties agree that the amount paid to the Settlement Fund and the other terms of the Stipulation were negotiated in good faith by the Settling Parties, and reflect a settlement that was reached voluntarily after consultation with competent legal counsel. The Settling Parties reserve their right to rebut, in a manner that such party determines to be appropriate, any contention made in any public forum that the Litigation was brought or defended in bad faith or without a reasonable basis. The Settling Parties agree not to oppose a finding in the Judgment that during the course of the Litigation, the Settling Parties and their respective counsel at all times complied with the requirements of Rule 11 of the Federal Rules of Civil Procedure.

12.4 Notwithstanding anything to the contrary contained herein, the Lead Plaintiffs and each of the Class Members, for themselves and any other persons claiming by, through, or on behalf of them, acknowledge and agree that (i) in no event shall the Administrator of Arthur Andersen LLP, any member of the Administrative Board of Arthur Andersen LLP (or any officer, director, member or shareholder of any

Administrative Board), any present or former directors, officers, managers, partners, participating principals, national directors or similar persons of Arthur Andersen LLP or any of their respective agents or representatives (collectively, the "Andersen Covered Persons") have any personal liability with respect to the obligations arising out of or relating to this Stipulation; and (ii) no Andersen Covered Person shall be obligated to make, and no Andersen Covered Person in fact will make, any capital contribution or other payment of any kind to Arthur Andersen LLP in order for Arthur Andersen LLP to satisfy its obligations arising out of or relating to this Stipulation. Notwithstanding this paragraph, Arthur Andersen LLP (but not Andersen Covered Persons) is responsible for the contribution of $10 million (ten million dollars) to this settlement, such payment to be made to Qwest Communications International Inc.

12.5 Neither the Stipulation nor the settlement contained herein, nor any act performed or document executed pursuant to or in furtherance of the Stipulation or the settlement: (a) is or may be deemed to be or may be used as an admission of, or evidence of, the validity of any Released Claim, or of any wrongdoing or liability of the Released Persons or Non−Settling Defendants; or (b) is or may be deemed to be or may be used as an admission of, or evidence of, any fault or omission of any of the Released Persons or Non−Settling Defendants in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal. Released Persons may file the Stipulation and/or the Judgment in any action that may be brought against them in order to support a defense or counterclaim based on principles of *res judicata*, collateral estoppel, release, good faith settlement, judgment bar or reduction or any other theory of claim preclusion or issue preclusion or similar defense or counterclaim.

12.6 The protections afforded by the Protective Order governing the Litigation shall be unaffected by this Stipulation.

12.7 All of the Exhibits to this Stipulation are material and integral parts hereof and are fully incorporated herein by this reference.

12.8 This Stipulation may be amended or modified only by a written instrument signed by or on behalf of all Settling Parties or their respective successors−in−interest.

12.9 This Stipulation, the Exhibits attached hereto, the Supplemental Agreement Regarding Requests for Exclusion, the executed Term Sheet between Qwest Communications International Inc. and Arthur Andersen LLP, and the other agreements identified herein, constitute the entire agreement among the parties hereto and no representations, warranties or inducements have been made to any party concerning the Stipulation, its Exhibits, or the Supplemental Agreement Regarding Requests for Exclusion, other than the representations, warranties and covenants contained and memorialized in such documents, and shall not be amended except by a written instrument signed by the Settling Parties. Except as otherwise provided herein, each Settling Party shall bear its own costs.

12.10 Lead Counsel, on behalf of the Class, are expressly authorized by the Lead Plaintiffs to take all appropriate action required or permitted to be taken by the Class pursuant to the Stipulation to effectuate its terms and also are expressly authorized to enter into any modifications or amendments to the Stipulation on behalf of the Class which they deem appropriate.

12.11 Each counsel or other Person executing the Stipulation or any of its Exhibits on behalf of any party hereto hereby warrants that such Person has the full authority to do so.

12.12 The Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument. A complete set of original executed counterparts shall be filed with the Court.

12.13 The Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the Settling Parties.

12.14 The Court shall retain jurisdiction with respect to implementation and enforcement of the terms of this Stipulation, and all parties hereto submit to the jurisdiction of the Court for purposes of implementing and enforcing the settlement embodied in the Stipulation.

12.15 This Stipulation and the Exhibits hereto shall be considered to have been negotiated, executed and delivered, and to be wholly performed, in the State of Delaware, and the rights and obligations of the parties to the Stipulation shall be construed and enforced in accordance with, and governed by, the internal, substantive laws of the State of Delaware without giving effect to that State's choice−of−law principles.

12.16 Whenever notice to Lead Plaintiffs or Lead Counsel is required to be given pursuant to this Stipulation, it shall be delivered by both facsimile and federal express to:

Keith Park
Lerach, Coughlin, Stoia, Geller,
Rudman & Robbins LLP
655 W. Broadway, Suite 1900
San Diego, CA 92101−3301
Fax: 619−231−7423

12.17 Whenever notice to Qwest Communications International Inc. is required to be given pursuant to this Stipulation, it shall be delivered by both facsimile and federal express to:

Richard N. Baer
General Counsel
Qwest Communications International Inc.
1801 California Street
Suite 5200
Denver, Colorado 80112
Fax: 303−383−8444

and

Jonathan Schiller
David Boyd
Alfred Levitt
Boies, Schiller & Flexner LLP
5301 Wisconsin Ave., N.W.
Washington DC 20015
(202) 237−2727 (phone)
(202) 237−6131 (fax)

12.18 Whenever notice to other Settling Defendants is required to be given pursuant to this Stipulation, it shall be delivered by both facsimile and federal express to the signatories to this Stipulation or their respective counsel.

IN WITNESS WHEREOF, the parties hereto have caused the Stipulation to be executed, by their duly authorized attorneys, dated as of November _____, 2005.

Exhibit 12

QWEST COMMUNICATIONS INTERNATIONAL INC.
CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in Millions)

	Nine Months Ended September 30, 2005	2004	2003	2002	2001	2000
Loss from continuing operations before income taxes, discontinued operations and cumulative effect of change in accounting principle	$ (251)	$ (1,706)	$ (1,832)	$ (20,115)	$ (7,362)	$ (2,034)
Add: estimated fixed charges	1,260	1,678	1,936	1,998	1,856	1,324
Add: estimated amortization of capitalized interest	11	18	24	25	19	12
Less: interest capitalized	(8)	(12)	(19)	(41)	(187)	(105)
Total earnings available for fixed charges	1,012	(22)	109	(18,133)	(5,674)	(803)
Estimate of interest factor on rentals	107	135	160	168	232	176
Interest expense, including amortization of premiums, discounts and debt issuance costs	1,145	1,531	1,757	1,789	1,437	1,043
Interest capitalized	8	12	19	41	187	105
Total fixed charges	$ 1,260	$ 1,678	$ 1,936	$ 1,998	$ 1,856	$ 1,324
Ratio of earnings to fixed charges	0.8	(0.0)	0.1	(9.1)	(3.1)	(0.6)
Additional pre−tax income needed for earnings to cover total fixed charges	$ 248	$ 1,700	$ 1,827	$ 20,131	$ 7,530	$ 2,127

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Richard C. Notebaert, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Qwest Communications International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2005

/s/ RICHARD C. NOTEBAERT

Richard C. Notebaert
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Oren G. Shaffer, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Qwest Communications International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2005

/s/ OREN G. SHAFFER

Oren G. Shaffer
Vice Chairman and Chief Financial Officer

Exhibit 32

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATION

Each of the undersigned hereby certifies, for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002, in his capacity as an officer of Qwest Communications International Inc. ("Qwest"), that, to his knowledge, the Quarterly Report of Qwest on Form 10−Q for the quarter ended September 30, 2005, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of Qwest. This written statement is being furnished to the Securities and Exchange Commission as an exhibit to such Form 10−Q. A signed original of this statement has been provided to Qwest and will be retained by Qwest and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 1, 2005

By: /s/ RICHARD C. NOTEBAERT

Richard C. Notebaert
Chairman and Chief Executive Officer

Dated: November 1, 2005

By: /s/ OREN G. SHAFFER

Oren G. Shaffer
Vice Chairman and Chief Financial Officer

EXHIBIT 99.1

QWEST COMMUNICATIONS INTERNATIONAL INC.
QUARTERLY OPERATING REVENUE
(Dollars in millions)
(Unaudited)

	2005			2004				2003			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Business:											
Wireline services revenue:											
Local voice	272	$ 270	$ 266	$ 278	$ 286	$ 278	$ 291	$ 289	$ 300	$ 307	$ 311
Long distance	110	114	114	106	119	114	116	108	115	110	113
Access	1	1	1	1	1	1	2	1	1	2	2
Total voice services	383	385	381	385	406	393	409	398	416	419	426
Data and Internet	569	510	494	504	488	498	497	484	497	476	463
Total business wireline services	952	895	875	889	894	891	906	882	913	895	889
Mass Markets:											
Wireline services revenue:											
Local voice	1,104	1,124	1,128	1,138	1,145	1,163	1,212	1,234	1,289	1,312	1,355
Long distance	170	164	166	161	151	140	140	138	137	136	133
Access	2	2	2	4	1	1	2	3	3	4	4
Total voice services	1,276	1,290	1,296	1,303	1,297	1,304	1,354	1,375	1,429	1,452	1,492
Data and Internet	189	175	171	158	137	141	136	137	132	130	133
Total mass markets wireline services	1,465	1,465	1,467	1,461	1,434	1,445	1,490	1,512	1,561	1,582	1,625
Wholesale:											
Wireline services revenue:											
Local voice	201	212	215	207	216	225	213	214	218	225	210
Long distance	279	269	278	278	279	239	244	237	215	221	201
Access	156	179	157	157	166	176	176	183	187	176	191
Total voice services	636	660	650	642	661	640	633	634	620	622	602
Data and Internet	310	311	322	312	319	330	313	319	313	336	345
Total wholesale wireline services	946	971	972	954	980	970	946	953	933	958	947
Total wireline services	$3,363	$3,331	$3,314	$3,304	$3,308	$3,306	$3,342	$3,347	$3,407	$3,435	$3,461
Wireless services revenue	129	130	124	124	132	128	126	138	152	153	151
Other services revenue	12	9	11	9	9	8	13	13	11	8	12
Total operating revenue	$3,504	$3,470	$3,449	$3,437	$3,449	$3,442	$3,481	$3,498	$3,570	$3,596	$3,624

EXHIBIT 99.2

QWEST COMMUNICATIONS INTERNATIONAL INC.
QUARTERLY CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)
(Unaudited)

	2005			2004				2003			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating revenue	$3,504	$3,470	$3,449	$3,437	$3,449	$3,442	$3,481	$3,498	$3,570	$3,596	$3,624
Operating expenses:											
Cost of sales:											
Facility costs	697	682	677	650	748	681	662	704	1,137	688	702
Network expenses	72	59	66	66	73	66	57	82	81	70	68
Employee−related costs	405	388	410	390	429	437	450	464	468	439	433
Other non−employee related costs	338	305	286	296	298	302	285	293	276	278	272
Total cost of sales	1,512	1,434	1,439	1,402	1,548	1,486	1,454	1,543	1,962	1,475	1,475
Selling, general and administrative:											
Property and other taxes	100	111	99	78	112	115	81	97	114	115	126
Bad debt	27	53	57	49	39	13	93	61	70	72	100
Restructuring, realignment and severance related costs	26	(1)	15	59	5	132	15	46	37	16	13
Employee−related costs	401	410	407	413	413	434	469	415	429	472	485
Other non−employee related costs	462	472	458	471	692	792	496	629	455	480	458
Total Selling, general and administrative	1,016	1,045	1,036	1,070	1,261	1,486	1,154	1,248	1,105	1,155	1,182
Depreciation and amortization	768	765	774	783	779	784	777	798	796	789	784
Asset impairment charges	—	—	—	36	34	43	—	—	230	—	—
Total operating expenses	3,296	3,244	3,249	3,291	3,622	3,799	3,385	3,589	4,093	3,419	3,441
Operating income (loss)	208	226	200	146	(173)	(357)	96	(91)	(523)	177	183
Other expense (income)											
Interest expense—net	384	380	381	366	374	394	397	436	437	444	440
Other (income) expense—net	(31)	13	(242)	(54)	40	(111)	12	(37)	(18)	(63)	(61)
Total other expense (income)	353	393	139	312	414	283	409	399	419	381	379
Income tax benefit (expense)	1	3	(4)	27	18	(136)	3	108	256	79	76
Income (loss) from continuing operations	(144)	(164)	57	(139)	(569)	(776)	(310)	(382)	(686)	(125)	(120)
Discontinued operations—net	—	—	—	—	—	—	—	(25)	2,517	61	66
Cumulative effect of accounting changes—net	—	—	—	—	—	—	—	—	—	—	206
Net income (loss)	$ (144)	$ (164)	$ 57	$ (139)	$ (569)	$ (776)	$ (310)	$ (407)	$1,831	$ (64)	$ 152

EXHIBIT 99.3

EXECUTION COPY

$850,000,000[1]

CREDIT AGREEMENT

dated as of

October 21, 2005

among
Qwest Services Corporation
Qwest Communications International Inc.

The Lenders party hereto from time to time,

and

Wachovia Bank, National Association,
as Administrative Agent and Issuing Lender

Wachovia Capital Markets, LLC
and
J.P. Morgan Securities Inc.
Joint Lead Arrangers
and Joint Bookrunners

JPMorgan Chase Bank, National Association.
Syndication Agent

Bank of America, N.A.
Deutsche Bank Trust Company Americas
Merrill Lynch Capital Corporation
Co−Documentation Agents

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[1] Subject to increase as provided in Section 2.15.

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CREDIT AGREEMENT

AGREEMENT dated as of October 21, 2005 among QWEST SERVICES CORPORATION, QWEST COMMUNICATIONS INTERNATIONAL INC., the LENDERS party hereto from time to time and WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent and Issuing Lender.

ARTICLE 1
DEFINITIONS

Section 1.01. The Definitions.

The following terms, as used herein, have the following meanings:

"*Act*" has the meaning set forth in Section 10.14.

"Adjusted London Interbank Offered Rate" has the meaning set forth in Section 2.06(b).

"*Administrative Agent*" means Wachovia Bank, National Association, in its capacities as administrative agent and collateral agent for the Lenders under the Loan Documents, and its successors in such capacity.

"*Administrative Agent−Related Person*" means the Administrative Agent, together with its Affiliates, and the officers, directors, employees, agents and attorneys−in−fact of such Persons and Affiliates.

"*Administrative Questionnaire*" means, with respect to each Lender, an administrative questionnaire in the form prepared by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Company) duly completed by such Lender.

"*Affiliate*", as applied to any Person, means any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"*Aggregate Revolver Commitment*" means the Revolver Commitments of all the Revolver Lenders.

"*Agreement*" means this Credit Agreement dated as of October 21, 2005, as the same may from time to time be amended, amended and restated, modified or supplemented including pursuant to any Term Loan Addendum.

"*Applicable Lending Office*" means, with respect to any Lender, (i) in the case of its Domestic Loans, its Domestic Lending Office and (ii) in the case of its Euro−Dollar Loans, its Euro−Dollar Lending Office.

"*Applicable Margin*" means, from time to time, the following percentages per annum, based upon the Debt Rating as set forth below:

Pricing Level	Debt Ratings S&P/Moody's	Commitment Fee	Euro−Dollar Revolver Loans and Letters of Credit	Domestic Revolver Loans
1	BBB− or Baa3 or better	0.250%	0.875%	0.000%
2	BB+ or Ba1	0.250%	1.250%	0.250%
3	BB or Ba2	0.300%	1.625%	0.625%
4	BB− or Ba3	0.375%	2.000%	1.000%
5	B+ or B1	0.375%	2.250%	1.250%
6	B/B2 or worse	0.500%	2.500%	1.500%

provided that if there is a split in the Debt Ratings of one level or more, then the Pricing Level that is one level higher than the Pricing Level of the lower Debt Rating shall apply (with the Debt Rating for Pricing Level 1 being the highest and the Debt Rating for Pricing Level 6 being the lowest), and if Debt Ratings are not issued by both S&P and Moody's, Pricing Level 6 shall apply. Each change in the Applicable Margin resulting from a publicly announced change in the Debt Rating shall be effective during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change.

"*Asset Sale*" means, with respect to any Person, any sale, transfer or other disposition (including pursuant to a sale and leaseback transaction) of any property of such Person, except (i) sales of inventory, customer premises equipment and other equipment, conduit, fiber and capacity (including indefeasible rights of use), Permitted Investments and sales or licenses of technology, in each case in the ordinary course of business, (ii) write−offs of accounts receivable or settlements of accounts receivable for less than the total unpaid balance thereof, in each case in the ordinary course of business and consistent with such Person's historical collection practices, (iii) sales or dispositions of shares of Equity Interests in any of its Subsidiaries in order to qualify members of the governing body of the Subsidiary, if required by applicable laws and in such amounts as required by applicable laws, (iv) any transfer of assets pursuant to any merger or consolidation permitted by Section 5.08(a), (v) any sale, transfer or other disposition of assets from any Subsidiary of the Company (other than QSC or a Corp. Company) to any other Subsidiary of the Company other than to a Corp. Company, (vi) transactions contemplated by the definition of "Permitted Receivables Financing."and (vii) any disposition of assets or portion thereof the consideration for which is substantially similar assets used in the same line of business as the assets being sold, transferred or otherwise disposed pursuant thereto and of substantially equivalent fair market value.

"*Assignee*" has the meaning set forth in Section 10.06(c).

"*Auto−Extension Letter of Credit*" has the meaning set forth in Section 2.16(b).

"*Base Rate*" means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day.

"*Benefit Arrangement*" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

"*Borrower*" means QSC, and its successors as "Borrower" hereunder (including as contemplated by Section 10.15).

"*Borrowing*" has the meaning set forth in Section 1.03.

"*Capital Funding*" means Qwest Capital Funding, Inc., a Colorado corporation, and its successors.

"*Cash Collateralize*" has the meaning set forth in Section 2.16(g).

"*Change of Control*" has the meaning set forth in Section 2.14.

"*Closing Date*" means the date on which the Administrative Agent shall have received the documents or evidence specified in or pursuant to Section 3.01.

"*Collateral*" means any and all "Collateral", as defined in any Collateral Document.

"*Collateral Agent*" has the meaning set forth in the Security and Pledge Agreement.

"*Collateral and Guaranty Requirement*" means the requirement that:

(a) the Collateral Agent shall have received from the Borrower a counterpart of the Security and Pledge Agreement duly executed and delivered on behalf of the Borrower;

(b) all outstanding Equity Interests constituting Collateral shall have been pledged pursuant to the Security and Pledge Agreement and the Collateral Agent shall have received all certificates or other instruments representing all outstanding Equity Interests of Corp., together with stock powers or other instruments of transfer with respect thereto endorsed in blank;

(c) all Instruments constituting Collateral shall have been pledged pursuant to the Security and Pledge Agreement and the Collateral Agent shall have received all such Instruments (subject to any limitations set forth in the Security and Pledge Agreement), together with instruments of transfer with respect thereto endorsed in blank;

(d) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Collateral Agent to be filed, registered or recorded to create the Liens intended to be created by the Security and Pledge Agreement and perfect or record such Liens to the extent, and with the priority,

required by the Security and Pledge Agreement, shall have been filed, registered or recorded or delivered to the Collateral Agent for filing, registration or recording; and

(e) the Borrower shall have obtained all consents and approvals required to be obtained by it in connection with (i) the execution and delivery of the Security and Pledge Agreement and (ii) subject to any limitations set forth in the Security and Pledge Agreement, the performance of its obligations thereunder and the granting of the Liens purported to be granted by it thereunder.

"*Collateral Documents*" means the Security and Pledge Agreement and each other security agreement, pledge agreement, instrument or document executed and delivered pursuant to Section 5.14 to secure any of the Lender Secured Obligations (as defined in the Security and Pledge Agreement).

"*Company*" means QCII.

"*Company Consolidated Leverage Ratio*" means the ratio of Debt of the Company and its Consolidated Subsidiaries, determined on a consolidated basis as of the last day of each fiscal quarter of the Company, to Consolidated Company EBITDA, determined for the four consecutive fiscal quarters ending on such date.

"*Consolidated Company EBITDA*" means, for any period, the net income of the Company and its Consolidated Subsidiaries determined on a consolidated basis for such period (adjusted to exclude (or, in the case of clause (z), include) the effect of (r) cash charges in respect of severance costs and any premiums paid in connection with the repurchase or retirement of Existing Debt, (s) any loss reflected in net income all or any portion of which is paid or reimbursed by an insurer, indemnitor or other third party source to the extent such payment or reimbursement is not reflected in net income, (t) any payment, charge or reserve for payment made or taken in connection with the restructuring or termination of an Outstanding UPO, to the extent such payment, charge or reserve exceeds the amount that would otherwise have been payable during the fiscal quarter in which such payment, charge or reserve was made or taken with respect to such Outstanding UPO, (u) any non−cash losses as a result of impairment of goodwill as required by Statement of Financial Accounting Standards No. 142, (v) equity gains or losses in unconsolidated Persons, (w) any preferred dividend income and any extraordinary or other non−recurring non−cash gain or loss, *provided* that any cash payments received or made as a result of such gain or loss (regardless of when the gain or loss was incurred) shall be included in the calculation of EBITDA for the period in which they are received or made (unless previously included for purposes of this calculation), (x) any gain or loss on the disposition of investments, (y) income (or loss) for such period of any Person, or attributable to any assets, disposed of during such period determined on a pro forma basis as though such Person or assets had been disposed of on the first day of such period) and (z) income (or loss) for such period of any Person that became a Subsidiary of the Company during such period or attributable to any assets acquired during such period, in each case, determined on a pro forma basis as though such Person or such assets were acquired on the first day of such period, *plus*, to the extent deducted in determining such adjusted net income, the aggregate amount of (i) interest expense, (ii) income tax expense, (iii) depreciation, amortization, reserves and other non−cash charges, and (iv) transaction costs incurred in connection with this Agreement, and *minus*, to the extent included in determining such adjusted

net income, the aggregate amount of (1) interest income and (2) income tax benefit; *provided* that EBITDA for any period shall also exclude (without duplication) up to $750.0 million in reserves accrued prior to the Closing Date (and related charges and costs) in respect of investigations, securities actions and legal settlement costs.

"*Consolidated Corp. EBITDA*" means, for any period, the net income of Corp. and its Consolidated Subsidiaries determined on a consolidated basis for such period (adjusted to exclude (or, in the case of clause (z), include) the effect of (r) cash charges in respect of severance costs and any premiums paid in connection with the repurchase or retirement of Existing Debt of Corp. and its Consolidated Subsidiaries, (s) any loss reflected in net income all or any portion of which is paid or reimbursed by an insurer, indemnitor or other third party source to the extent such payment or reimbursement is not reflected in net income, (t) any payment, charge or reserve for payment made or taken in connection with the restructuring or termination of an Outstanding UPO, to the extent such payment, charge or reserve exceeds the amount that would otherwise have been payable during the fiscal quarter in which such payment, charge or reserve was made or taken with respect to such Outstanding UPO, (u) any non−cash losses as a result of impairment of goodwill as required by Statement of Financial Accounting Standards No. 142, (v) equity gains or losses in unconsolidated Persons, (w) any preferred dividend income and any extraordinary or other non−recurring non−cash gain or loss, *provided* that any cash payments received or made as a result of such gain or loss (regardless of when the gain or loss was incurred) shall be included in the calculation of EBITDA for the period in which they are received or made (unless previously included for purposes of this calculation), (x) any gain or loss on the disposition of investments, (y) income (or loss) for such period of any Person, or attributable to any assets, disposed of during such period determined on a pro forma basis as though such Person or assets had been disposed of on the first day of such period and (z) income (or loss) for such period of any Person that became a Subsidiary of Corp. during such period or attributable to any assets acquired during such period, in each case, determined on a pro forma basis as though such Person or such assets were acquired on the first day of such period, *plus*, to the extent deducted in determining such adjusted net income, the aggregate amount of (i) interest expense, (ii) income tax expense, (iii) depreciation, amortization, reserves and other non−cash charges, and (iv) transaction costs incurred in connection with this Agreement, and *minus*, to the extent included in determining such adjusted net income, the aggregate amount of (1) interest income and (2) income tax benefit; *provided* that EBITDA for any period shall also exclude (without duplication) up to $750.0 million in reserves accrued prior to the Closing Date (and related charges and costs) in respect of investigations, securities actions and legal settlement costs.

"*Consolidated Subsidiary*" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Company, QSC or Corp., as applicable, in its consolidated financial statements if such statements were prepared as of such date.

"*Corp*." means Qwest Corporation, a Colorado corporation, and its successors.

"*Corp. Company*" means Corp. or any of its Subsidiaries.

"*Corp. Equity Collateral*" has the meaning set forth in the Security and Pledge Agreement.

"*Credit Extension*" means each of the following: (a) a Borrowing and (b) an L/C Credit Extension.

"*Debt*" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles, (v) all Debt secured by a Lien on any asset of such Person, whether or not such Debt is otherwise an obligation of such Person, and (vi) all Debt of others Guaranteed by such Person. Notwithstanding the foregoing, for purposes of Section 5.06 Debt shall in no event include the following:

(x) Debt of Persons which are not Consolidated Subsidiaries ("*Joint Ventures*") (i) which is secured by a Lien on the assets or capital stock of a Minor Subsidiary or the equity interests in such Joint Ventures or is Guaranteed by a Minor Subsidiary, which Lien or Guaranty is incurred in connection with the operations of the Company and its Subsidiaries, and (ii) for the payment of which no other recourse may be had to the Company or any of its Subsidiaries;

(y) Debt of the Company or QSC issued in connection with the issuance of Trust Originated Preferred Securities or substantially similar securities, so long as such Debt is subordinated and junior in right of payment to substantially all liabilities of the Company or QSC, as the case may be, including, without limitation, the Obligations or the Guaranteed Obligations; and

(z) any mandatorily convertible equity−linked securities issued by the Company, so long as any such securities satisfy each of the following conditions: (i) the terms thereof require no repayments or prepayments and no mandatory redemptions or repurchases, in each case prior to the Outside Date in effect as of the date such securities are issued, and (ii) such securities are subordinated and junior in right of payment to all obligations of the Company, as the case may be, for or in respect of borrowed money (unless the instrument governing such obligations expressly provides that such obligations are not senior or superior to such securities or are subordinated or junior in right of payment to them), including, without limitation, to all Obligations or Guaranteed Obligations.

"*Debt Rating*" means, as of any date of determination, the rating as determined by each of S&P and Moody's of the Debt under this Agreement (or, if ratings of such Debt are not issued by both S&P and Moody's, the senior implied rating (in the case of Moody's) and the corporate rating (in the case of S&P) of the Company).

"*Default*" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"*Domestic Business Day*" means any day except a Saturday, Sunday or other day on which commercial banks in New York City, New York or Charlotte, North Carolina are authorized by law to close.

"*Domestic Lending Office*" means, as to each Lender, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Lender may hereafter designate as its Domestic Lending Office by notice to the Company and the Administrative Agent.

"*Domestic Loan*" means (i) a Loan which bears interest at the Base Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election or the provisions of Article 8 or (ii) an overdue amount which was a Domestic Loan immediately before it became overdue.

"*Eligible Assignee*" means a Lender, a Lender Affiliate and any other Person approved pursuant to Section 10.06(c).

"*Environmental Laws*" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to the environment, the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the clean−up or other remediation thereof.

"*Environmental Permits*" has the meaning set forth in Section 4.07(b)

"*Equity Interests*" means (i) shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person or (ii) any warrants, options or other rights to acquire such shares or interests; provided that Debt which is convertible to or exchangeable or otherwise redeemable for, Equity Interests, shall not be deemed to be Equity Interests.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"*ERISA Group*" means the Company, any Subsidiary and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company or any Subsidiary, are treated as a single employer under Section 414 of the Internal Revenue Code.

"*Euro−Dollar Business Day*" means any Domestic Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

"*Euro−Dollar Lending Office*" means, as to each Lender, its office, branch or affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administra−

tive Questionnaire as its Euro−Dollar Lending Office) or such other office, branch or affiliate of such Lender as it may hereafter designate as its Euro−Dollar Lending Office by notice to the Company and the Administrative Agent.

"*Euro−Dollar Loan*" means (i) a Loan which bears interest at a Euro−Dollar Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election or (ii) an overdue amount which was a Euro−Dollar Loan before it became overdue.

"*Euro−Dollar Rate*" means a rate of interest determined pursuant to Section 2.06 on the basis of an Adjusted London Interbank Offered Rate.

"*Euro−Dollar Reserve Percentage*" has the meaning set forth in Section 2.06(b).

"*Event of Default*" has the meaning set forth in Section 6.01.

"*Existing Credit Agreement*" means the Credit Agreement dated as of February 5, 2004, among the Borrower, the Company, the banks party thereto and Bank of America, N.A., as Administrative Agent.

"*Existing Debt*" means Debt of the Company or any Subsidiary existing on the Closing Date, as in effect on the Closing Date and listed in Schedule 5.12.

"*Existing Notes*" means, collectively, the debt securities of QCII and QSC as outstanding on the Closing Date and listed in Schedule 5.12.

"*Facility Liens*" has the meaning set forth in Section 5.07(i).

"*Federal Funds Rate*" means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, *provided* that (i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to Wachovia Bank, National Association, on such day on such transactions as determined by the Administrative Agent.

"*Foreign Subsidiary*" means any Subsidiary of QSC (other than a Corp. Company) that is not incorporated or organized in the United States or any State thereof.

"*Granting Lender*" has the meaning set forth in Section 10.06(f).

"*Group of Loans*" means at any time a group of Loans consisting of (i) all Loans which are Domestic Loans at such time or (ii) all Loans which are Euro−Dollar Loans having the same Interest Period at such time; *provided* that, if a Loan of any particular Lender is converted to or made as a Domestic Loan pursuant to Section 8.02 or 8.05, such Loan shall be included in the

same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

"*Guaranteed Obligations*" means, with respect to the Guarantor, all Obligations.

"*Guarantor*" means the Company (and its successors, including as contemplated by Section 10.15), in its capacity as guarantor under Article 9.

"*Guaranty*" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep−well, to purchase assets, goods, securities or services, to take−or−pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term Guaranty shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"*Hazardous Substances*" means any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by−products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

"*Honor Date*" has the meaning set forth in Section 2.16(c).

"*Increase Effective Date*" has the meaning set forth in Section 2.15(b).

"*Indemnitee*" has the meaning set forth in Section 10.03(b).

"*Instrument*" has the meaning set forth in the Security and Pledge Agreement.

"*Interest Period*" means, with respect to each Euro−Dollar Loan, a period commencing on the date of borrowing specified in the applicable Notice of Borrowing or the date specified in the applicable Notice of Interest Rate Election and ending one, two, three, six or (if requested by the Borrower and consented to by all the applicable Lenders) twelve months thereafter, as the Borrower may elect in the applicable notice; *provided* that:

(a) any Interest Period which would otherwise end on a day which is not a Euro−Dollar Business Day shall be extended to the next succeeding Euro−Dollar Business Day unless such Euro−Dollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro−Dollar Business Day;

(b) any Interest Period which begins on the last Euro−Dollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) below, end on the last Euro−Dollar Business Day of a calendar month; and

(c) any Interest Period beginning prior to the Revolver Maturity Date (in the case of any Revolver Loan) or the Term Maturity Date (in the case of any Term Loan) which would otherwise end after such date shall end on such date.

"*Internal Revenue Code*" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"*investment*" has the meaning set forth in Section 5.13.

"*ISP*" means, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

"*Issuing Lender*" means Wachovia Bank, National Association in its capacity as issuer of Letters of Credit hereunder, or any successor issuer of Letters of Credit hereunder.

"*Issuer Documents*" means with respect to any Letter of Credit, the Letter of Credit Application, and any other material document, agreement and instrument entered into by the Issuing Lender and the Borrower (or any Subsidiary) or in favor of the Issuing Lender and relating to any such Letter of Credit.

"*Joint Venture*" has the meaning set forth in Section 5.07(f).

"*L/C Advance*" means, with respect to each Revolver Lender, such Revolver Lender's funding of its participation in any L/C Borrowing in accordance with its Pro Rata Share.

"*L/C Borrowing*" means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Domestic Revolver Loan.

"*L/C Credit Extension*" means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

"*L/C Obligations*" means, as at any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"*Legal Matter Costs*" means any liability with respect to (i) any judgments, fines, levies, settlement or other payments made or agreed to be made in connection with any agreements with, or judgments sought or obtained by, any governmental agency or regulator, including but not limited to the United States Department of Justice, the Securities and Exchange Commission and any other federal or state enforcement agencies or regulators, with respect to the Pending Matters, or (ii) any payments made or agreed to be made in satisfaction of any civil judgments or awards obtained by a private plaintiff or class thereof, including any award of attorneys' fees

and/or costs, with respect to the Pending Matters, or any settlement payments made to a private plaintiff or class thereof that settle, compromise and/or terminate any legal proceeding based upon any Pending Matters.

"*Lender*" means a Revolver Lender or a Term Lender.

"*Lender Affiliate*" means, (a) with respect to any Lender, (i) an Affiliate of such Lender or (ii) an entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an affiliate of such investment advisor.

"*Letter of Credit*" means any letter of credit issued hereunder. A Letter of Credit may be a commercial Letter of Credit or a standby Letter of Credit.

"*Letter of Credit Application*" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the Issuing Lender.

"*Letter of Credit Fee*" has the meaning specified in Section 2.16(i).

"*Letter of Credit Sublimit*" means an amount equal to the lesser of (x) $150,000,000 and (y) the then applicable Aggregate Revolver Commitments. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Revolver Commitments.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset. For the purposes of this Agreement, the Company or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"*Limited Recourse Debt*" has the meaning specified in Section 5.07(f).

"*Loan*" means a Revolver Loan or a Term Loan; *provided* that if any such loan or loans are combined or subdivided pursuant to a Notice of Interest Rate Election, the term "Loan" shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

"*Loan Documents*" means this Agreement, the Notes and the Collateral Documents.

"*Loan Party*" means the Company and QSC.

"*London Interbank Offered Rate*" has the meaning set forth in Section 2.06.

"*Mandatorily Redeemable Equity*" of any Person means Equity Interests of such Person which are subject to redemption, repurchase or retirement prior to the date that falls 90 days after the Revolver Maturity Date other than at the sole option of such Person.

"*Margin Stock*" means "margin stock" as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"*Material Adverse Change*" means a material adverse change in the financial condition or results of operations of the Company and its Subsidiaries, taken as a whole.

"*Material Debt*" means Debt (other than the Loans) of the Company and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal amount exceeding $100,000,000.

"*Material Plan*" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of $100,000,000.

"*Minor Subsidiary*" means, for purposes of the last sentence of the definition of Debt and of Section 5.07(f) (the "*Relevant Provisions*"), any Subsidiary (other than QSC) which, at the time of the issuance of a Guaranty or grant of a Lien referred to in the Relevant Provisions, had assets which, when taken together with all assets of Subsidiaries at any earlier time when such Subsidiaries were deemed to be Minor Subsidiaries pursuant to this definition, did not exceed $250,000,000.

"*Moody's*" means Moody's Investors Service, Inc. and its successors.

"*Multiemployer Plan*" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"*Net Proceeds*" means, with respect to any event, the cash proceeds received in respect of such event including, without limitation, any cash received in respect of any non−cash proceeds, but only as and when received, in each case net of the sum of (1) all reasonable fees and out−of−pocket costs and expenses paid (or reasonably estimated to be payable) by the Company and its Subsidiaries to third parties (other than Affiliates) in connection with such event, (2) in the case of a sale, transfer or other disposition of an asset (including, without limitation, pursuant to a sale and leaseback transaction), the amount of all payments required to be made by the Company and its Subsidiaries as a result of such event to repay Debt secured by such asset or otherwise subject to mandatory prepayment as a result of such event (but excluding (x) the Loans and (y) any Debt secured by such asset if such Debt or the Lien securing such Debt is subordinated (or is required to be subordinated) to the Loans, and (3) the amount of all taxes paid (or reasonably estimated to be payable) by the Company and its Subsidiaries, the amount of any reserves established by the Company and its Subsidiaries to fund contingent liabilities reasonably estimated to be payable and the amount of capital and operating expenditures that would not otherwise have been incurred and are required in writing or by application of policy by a public utility commission to be

incurred as a condition to its consent, in each case during the year that such event occurred or the next succeeding year and that are directly attributable to such event (as determined reasonably and in good faith by the chief financial officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of the Company); *provided* that "Net Proceeds" shall not include (a) any cash payment received by the Company and its Subsidiaries and constituting a deposit or advance with respect to an Asset Sale that has not been consummated on or prior to the date of receipt thereof (it being understood that upon consummation of such Asset Sale such cash payment shall constitute "Net Proceeds" with respect thereto) and (b) any cash proceeds received by any Foreign Subsidiary from any Asset Sale to the extent relating to assets held by Foreign Subsidiaries.

"*New Holding Company*" means any direct or indirect wholly−owned Subsidiary of the Company (other than QSC, any Subsidiary of QSC, Capital Funding or any Subsidiary of Capital Funding) created after the Closing Date.

"*Non−Consenting Lender*" has the meaning set forth in Section 10.05(c).

"*Non−Extension Notice Date*" has the meaning set forth in Section 2.16(b).

"*Notes*" means promissory notes of the Borrower, substantially in the form of Exhibit A hereto, evidencing the obligation of the Borrower to repay the Loans made to it, and "Note" means any one of such promissory notes issued hereunder.

"*Notice of Borrowing*" has the meaning set forth in Section 2.02.

"*Notice of Interest Rate Election*" has the meaning set forth in Section 2.09(a).

"*Obligations*" means all obligations of every nature of each Loan Party arising under the Loan Documents or otherwise owed by a Loan Party with respect to any Credit Extension including, without limitation, interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any bankruptcy, insolvency or debtor relief law naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding (it being understood that the Obligations shall continue to be Obligations of QSC for purposes of the Security and Pledge Agreement notwithstanding any substitution of QCII for QSC as the Borrower pursuant to Section 10.15).

"*Optional Termination Date*" has the meaning set forth in Section 2.14.

"*Outside Date*" means the date that falls 90 days after the later of the Revolver Maturity Date and the latest Term Maturity Date, if any.

"*Outstanding Amount*" means, without duplication, (i) with respect to Revolver Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any Revolver Borrowings and prepayments of Revolver Loans occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate

amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrower of Unreimbursed Amounts.

"*Outstanding UPO*" means the unconditional purchase obligations of the Company and its Subsidiaries outstanding on the Closing Date.

"Pari Term Loans" has the meaning set forth in Section 2.15(d)

"*Parent*" means, with respect to any Lender, any Person controlling such Lender.

"*Participant*" has the meaning set forth in Section 10.06(b).

"*Payments Basket*" means, on any date, the cumulative sum as of such date of (i) the net proceeds or amount of reductions in liabilities of the Company and its Subsidiaries of issuances after the Closing Date by the Company of common stock and preferred stock (other than Mandatorily Redeemable Equity) (including, without duplication, net proceeds and/or reduction in liabilities from Debt and Mandatorily Redeemable Equity converted to common stock of the Company when converted), (ii) the cumulative amount of consolidated net income (excluding the effects of (y) any non−cash losses as a result of impairment of goodwill as required by Statement of Financial Accounting Standards No. 142 and (z) any premiums paid in connection with the repurchase or retirement of Existing Debt) of the Company for the period starting January 1, 2006 and ending on the last day of the fiscal quarter of the Company most recently ended on or prior to such date (calculated as a single accounting period) (but in any event, not less than zero pursuant to this clause (ii)) and (iii) $1,700,000,000.

"*PBGC*" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"*Pending Matters*" means the matters that are specifically identified on Schedule 4.05.

"*Permitted Investments*" means investments in:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States), in each case maturing within one year from the date of acquisition thereof;

(b) commercial paper maturing within one year from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody's;

(c) certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial lender organized under the laws of the United States or any State thereof which has a combined capital and surplus and undivided profits of at least $500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above;

(e) in the case of any Foreign Subsidiary, (i) marketable direct obligations issued by, or unconditionally guaranteed by, the sovereign nation in which such Person is organized and is conducting business or issued by any agency of such sovereign nation and backed by the full faith and credit of such sovereign nation, in each case maturing within one year from the date of acquisition, so long as the indebtedness of such sovereign nation is rated at least A by S&P, A2 by Moody's or A mid by Dominion Bond Rating Service Limited or carries an equivalent rating from a comparable foreign rating agency or (ii) investments of the type and maturity described in clauses (b) through (d) above of foreign obligors, which investments or obligors have ratings described in such clauses or equivalent ratings from comparable foreign rating agencies; and

(f) any other Investments made in compliance with the Cash Management Investment Policy of the cash management group of the Company and its Subsidiaries with respect to cash investments, substantially as in effect on the Closing Date or as amended in any manner which does not materially increase the risk profile of the investments permitted thereunder taken as a whole.

"*Permitted Payments*" means, on any date, the sum of all Restricted Payments made in reliance on Section 5.10(iv) and investments made in reliance on Section 5.13(m).

"*Permitted Purchase Money Debt*" has the meaning set forth in Section 5.12(f).

"*Permitted QSC Junior Lien Debt*" has the meaning set forth in Section 5.12(e).

"*Permitted Receivables Financing*" means (A) any financing transaction in which (i) the Company or a Subsidiary transfers receivables and related assets to a Securitization Subsidiary in exchange for an equity interest or intercompany obligation of such Securitization Subsidiary or cash, so long as such transfers of such receivables and related assets are made on an arms−length basis and on terms reasonably standard for such transactions in the financial market and otherwise in accordance with the terms and conditions of this Agreement, (ii) such Securitization Subsidiary may but shall not be required to pledge its assets to secure advances from a third party, (iii) such third party advances amounts to such Securitization Subsidiary in anticipation of collection of the receivables held by such Securitization Subsidiary and (iv) any amounts collected in respect of such receivables in excess of the amount of advances to such Securitization Subsidiary from such third party are retained by such Securitization Subsidiary or distributed to the Company or a Subsidiary or (B) any other commerically reasonable receivables financing structure satisfactory to Administrative Agent; *provided* that the aggregate outstanding amount of advances in respect of receivables transferred to Securitization Subsidiaries shall not exceed $750,000,000.

"*Person*" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"*Plan*" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"*Prime Rate*" means the rate of interest publicly announced by Wachovia Bank, National Association from time to time as its Prime Rate.

"*Pro Rata Share*" means, with respect to each Revolver Lender at any time, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the amount of the Revolver Commitment of such Revolver Lender at such time and the denominator of which is the amount of the Aggregate Revolver Commitments at such time; *provided* that if the commitment of each Revolver Lender to make Loans and the obligation of the Issuing Lender to make L/C Credit Extensions have been terminated pursuant to Section 6.01, then the Pro Rata Share of each Revolver Lender shall be determined based on the Pro Rata Share of such Revolver Lender immediately prior to such termination and after giving effect to any subsequent assignments made pursuant to the terms hereof. The initial Pro Rata Share of each Revolver Lender is set forth opposite the name of such Revolver Lender on the Revolver Commitment Schedule or in the Assignment and Assumption pursuant to which such Revolver Lender becomes a party hereto, as applicable.

"*Purchase Money Debt*" means Debt of any Person incurred for the purpose of financing all or any part of the cost of the acquisition of any asset by such Person, so long as the proceeds of any such Debt are applied by such Person upon receipt thereof (and in any event within ten (10) Business Days after receipt thereof) to acquire such asset.

"*Purchase Money Obligor*" has the meaning set forth in Section 5.07(c).

"*QCC*" means Qwest Communications Corporation, a Delaware corporation, and its successors.

"QCII" means Qwest Communications International Inc., a Delaware corporation, and its successors.

"*QCII Notes Issued 1998*" means the "Existing 2008 Notes" (as defined in the 2002 Security and Pledge Agreement).

"QSC" means Qwest Services Corporation, a Colorado corporation, and its successors

"*QSC Notes Indenture*" means the indenture dated December 26, 2002 between QSC, the guarantors named therein and Bank One Trust Company, N.A., as Trustee.

"*QSC Notes Issued 2002*" means the notes issued by QSC pursuant to the QSC Notes Indenture.

"*Qwest Entity*" has the meaning set forth in Section 7.02.

"*Required Lenders*" means at any time the Lenders holding a majority of the Total Exposure.

"*Required Revolver Lenders*" means at any time the Revolver Lenders holding a majority of the Aggregate Revolver Commitments, if any Revolver Commitments are still in existence, or the Revolver Outstandings, if all the Revolver Commitments have been terminated.

"*Restricted Payment*" means any dividend or other distribution (whether in cash, securities or other property, including without limitation pursuant to a "spin−off" or other distribution to equity holders generally) with respect to any Equity Interest of the Company or any of its Subsidiaries, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interest.

"*Revolver Commitment*" means, with respect to each Revolver Lender, the amount set forth opposite the name of such Lender on the Revolver Commitment Schedule attached hereto or in the applicable Assignment and Assumption Agreement, as such amount may be reduced from time to time pursuant to Section 2.08, 2.14 or 10.06(c) or increased from time to time pursuant to Section 2.15(a). For the avoidance of doubt, the term "Revolver Commitment" refers to the obligation of a Revolver Lender to make Revolver Loans and to participate in Letters of Credit and not to any obligation to make Term Loans, which is in addition to, and separate from, such Revolver Commitment.

"*Revolver Credit Period*" means the period from and including the Closing Date to but excluding the Revolver Maturity Date.

"*Revolver Lenders*" means each lender listed on the signature pages hereof, each lender executing a joinder agreement pursuant to Section 2.15(a), each Assignee which becomes a Revolver Lender pursuant to Section 10.06(c), and their respective successors.

"*Revolver Loan*" means a loan made or to be made by a Revolver Lender pursuant to Section 2.01(a).

"*Revolver Maturity Date*" means October 21, 2010, or, if such day is not a Euro−Dollar Business Day, the next preceding Euro−Dollar Business Day.

"*Revolver Outstandings*" means, without duplication, the aggregate Outstanding Amount of all Revolver Loans and L/C Obligations.

"*Securitization Subsidiary*" means (i) any wholly−owned Subsidiary of the Company (other than QSC) or (ii) any special purpose trust, limited liability company, corporation or other entity in which neither the Company nor any Subsidiary has an equity interest, and the equity interest securities of which have nominal economic value, in each case, created solely for the purpose of engaging only in activities reasonably related to or in connection with a Permitted Receivables Financing and for which neither the Company nor any of its Subsidiaries provides

credit support, and (iii) any multi−seller commercial paper conduit; provided, that any representations and warranties, covenants or arrangements (including the retention by the Company or a Subsidiary of subordinated interests in receivables or related assets) that are customarily permitted by rating agencies or accounting firms where the rating or accounting treatment depends on a legal opinion or conclusion that the receivables and related assets are isolated from the bankruptcy risk of the Company and its subsidiaries shall not be considered credit support for purposes of this definition of "Permitted Receivables Financing".

"*Security and Pledge Agreement*" means the Security and Pledge Agreement, substantially in the form of Exhibit B, dated as of the Closing Date among QSC and the Collateral Agent, as amended from time to time.

"*Significant Subsidiary*" means any Subsidiary which would meet the definition of "significant subsidiary" contained as of the date hereof in Regulation S−X of the Securities and Exchange Commission.

"*SPC*" has the meaning set forth in Section 10.06(f).

"*S&P*" " means Standard & Poor's Ratings Group (a division of The McGraw−Hill Companies, Inc.), and its successors.

"*Subsidiary*" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Company.

"*Taxes*" has the meaning set forth in Section 8.04(a).

"*Term Lender*" means each lender executing a Term Loan Addendum pursuant to Section 2.15(d), each Assignee which becomes a Term Lender pursuant to Section 10.06(c), and their respective successors.

"*Term Loan*" means a loan made or to be made by a Lender pursuant to Section 2.01(b).

"*Term Loan Addendum*" means a Term Loan Addendum substantially in the form of Exhibit C.

"*Term Maturity Date*" means, with respect to any Term Loan, the "Term Maturity Date" set forth in the Term Loan Addendum relating to such Term Loan.

"*Term Outstandings*" means, with respect to Term Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any prepayments of Term Loans on such date.

"*Total Exposure*" means, at any time, the sum of (i) the Aggregate Revolver Commitments, if any Revolver Commitments are still in existence, or the Revolver Outstandings, if all the Revolver Commitments have been terminated and (ii) the Term Outstandings.

"*Total Outstandings*" means, at any time, the sum of the Revolver Outstandings and the Term Outstandings.

"*Unfunded Liabilities*" means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"*United States*" means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

"*Unreimbursed Amount*" has the meaning specified in Section 2.16(c)(i).

"*Unused Revolver Commitments*" means on any day the amount, if any, by which the Aggregate Revolver Commitments exceed the Revolver Outstandings.

"*2002 Security and Pledge Agreement*" means the Security and Pledge Agreement dated December 26, 2002, between QSC and J.P. Morgan Trust Company, National Association (as successor to Bank One Trust Company, N.A.), as Collateral Agent.

"*2004 Security and Pledge Agreement*" means the Security and Pledge Agreement dated as of February 5, 2004 between QSC and The Bank of New York (as successor to BNY Asset Solutions LLC), as Collateral Agent.

Section 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time in the United States, applied on a basis consistent (except for changes concurred in by the Company's independent public accountants) with the most recent audited consolidated financial statements of the Company and its Consolidated Subsidiaries or Corp. and its Consolidated Subsidiaries, as the case may be; *provided* that, if the Company notifies the Administrative Agent that the Company wishes to amend any covenant in Article 5 or any other term or provision of this Agreement to eliminate the effect of any change in such generally accepted accounting principles (or any interpretation or application thereof by the Securities and Exchange Commission or the independent public accountants of the Company) from those used in the preparation of the most recent financial statements referred to in Section 4.04 or any change in, or imposition of any new, applicable laws, rules or regulations on the operation of such covenant (or if the Administrative Agent notifies the Company that the Required Lenders wish to amend Article 5 or any other term or provision of this Agreement for such purpose), then the Company, the Administrative Agent and the Lenders agree to negotiate in good faith to modify the provisions hereof to eliminate the effect of such change and compliance with such covenant or such term or provision shall be determined on the basis of generally accepted accounting principles (or the interpre−

tation or application thereof) or any such laws, rules or regulations in effect in the United States immediately before the relevant change in generally accepted accounting principles (or interpretation or application thereof) or implementation of any such laws, rules or regulations became effective, until either such notice is withdrawn or such covenant or such term or provision is amended in a manner satisfactory to the Company and the Required Lenders.

Section 1.03. Types and Tranches of Borrowings of Loans. The term "Borrowing" denotes the aggregation of Loans of one or more Lenders to be made to the Borrower or converted or continued, pursuant to Article 2 on a single date, all of which Loans are of the same type and tranche (subject to Article 8) and, except in the case of Domestic Loans, have the same Interest Period or initial Interest Period. Borrowings are classified for purposes of this Agreement and referred to by reference to the type (*e.g.*, a "*Euro−Dollar Borrowing*" or a "*Domestic Borrowing*") or tranche (*e.g.*, a "*Revolver Borrowing*" or a "*Term Borrowing*") of Loans comprising such Borrowing. Loans are classified for purposes of this Agreement and referred to by reference to type (*e.g.*, a "*Euro−Dollar Loan*") or by tranche (*e.g.*, a "*Revolver Loan*") or by type and tranche (*e.g.*, a "*Euro−Dollar Revolver Loan*" or a "*Domestic Revolver Loan*").

ARTICLE 2
THE CREDITS

Section 2.01. Commitments to Lend.

(a) Revolver Loans. During the Revolver Credit Period each Revolver Lender severally agrees, on the terms and conditions set forth in this Agreement, to make loans to the Borrower from time to time in amounts such that such Lender's Pro Rata Share of the Revolver Outstandings shall not exceed the amount of its Revolver Commitment. Each Borrowing under this Section shall be in an aggregate principal amount of $25,000,000 or any larger multiple of $5,000,000 (except that any such Borrowing may be in the maximum aggregate amount available in accordance with Section 3.03(c)) and shall be made from each Revolver Lender in accordance with its Pro Rata Share. Within the foregoing limits, the Borrower may borrow, repay, or to the extent permitted by Section 2.10, prepay Loans and reborrow at any time prior to the Revolver Maturity Date. The Revolver Commitments shall terminate at the close of business on the Revolver Maturity Date.

(b) Term Loans. Each Term Lender severally agrees, on the terms and conditions set forth in this Agreement and in the applicable Term Loan Addendum, to make Term Loans in the amounts and on the date set forth in such Term Loan Addendum to the Borrower.

Section 2.02. Notice of Borrowing. The Borrower shall give the Administrative Agent notice, substantially in the form of Exhibit F (a "*Notice of Borrowing*"), not later than 10:30 A.M. (New York City time) on (x) the date of each Domestic Borrowing, and (y) the third Euro−Dollar Business Day before each Euro−Dollar Borrowing; *provided* that if the Borrower wishes to request a Euro−Dollar Borrowing having an Interest Period twelve months in duration as provided in the definition of "Interest Period", the applicable notice must be received by the Administrative Agent not later than 11:00 A.M. four Euro−Dollar Business Days prior to the requested date of such Borrowing, whereupon the Administrative Agent shall give prompt notice to the applicable Lenders of such request and determine whether the requested Interest Period is

acceptable to all of them. Not later than 11:00 A.M., three Business Days before the requested date of such Borrowing, the Administrative Agent shall notify the Borrower (which notice may be by telephone) whether or not the requested Interest Period has been consented to by all the applicable Lenders. Each Notice of Borrowing shall specify:

(i) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Domestic Borrowing or a Euro−Dollar Business Day in the case of a Euro−Dollar Borrowing,

(ii) the aggregate amount of Loans comprising such Borrowing and whether they are Revolver Loans or Term Loans,

(iii) whether the Loans comprising such Borrowing bear interest initially at the Base Rate or at a Euro−Dollar Rate, and

(iv) in the case of a Euro−Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Section 2.03. Notice to Lenders; Funding of Loans.

(a) Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Revolver Lender or Term Lender, as applicable, of the contents thereof and of such Lender's share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Not later than 1:00 P.M. (New York City time) on the date of each Borrowing, each Lender shall (except as provided in subsection (c) of this Section) make available its share of such Borrowing, in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 10.01. Unless any applicable condition specified in Article 3 has not been satisfied, as determined by the Administrative Agent in accordance with Article 3, the Administrative Agent will make the funds so received from the Lenders immediately available to the Borrower at the Administrative Agent's aforesaid address.

(c) If any Lender makes a new Loan hereunder on a day on which the Borrower is to repay all or any part of an outstanding Loan or L/C Borrowing from such Lender, such Lender shall apply the proceeds of its new Loan to make such repayment and only an amount equal to the difference (if any) between the amount being borrowed by the Borrower and the amount being repaid shall be made available by such Lender to the Administrative Agent as provided in subsection (b) of this Section, or remitted by the Borrower to the Administrative Agent as provided in Section 2.11, as the case may be.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing (or, in the case of a Base Rate Borrowing, prior to Noon (New York City time) on the date of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsections (b) and (c) of this Section 2.03 and the Adminis−

trative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such share available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06 and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Loan included in such Borrowing for purposes of this Agreement. If the Borrower shall have repaid such corresponding amount of such Lender, such Lender shall reimburse the Borrower for any loss on account thereof incurred by the Borrower. Nothing contained in the foregoing shall be construed as relieving a Lender of its obligation to fund a Loan when required under the terms of this Agreement.

Section 2.04. Evidence of Debt. The Loans made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Loans made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower to pay any amount owing with respect to its obligations under the Loan Documents. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, type, tranche, amount and maturity of its Loans and payments with respect thereto.

Section 2.05. Maturity of Loans. Each Revolver Loan shall mature, and the principal amount thereof shall be due and payable, together with accrued interest thereon, on the Revolver Maturity Date. Each Term Loan shall mature, and the principal amount thereof shall be due and payable, together with accrued interest thereon, on the Term Maturity Date.

Section 2.06. Interest Rates.

(a) Each Domestic Revolver Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the sum of the Applicable Margin *plus* the Base Rate for such day. Such interest shall be payable quarterly in arrears on the last day of each calendar quarter and, with respect to the principal amount of any Domestic Revolver Loan converted to a Euro−Dollar Loan, on each date a Domestic Revolver Loan is so converted. Any overdue principal of or interest on any Domestic Revolver Loan shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment at a rate per annum

equal to the sum of 2% *plus* the rate otherwise applicable to Domestic Revolver Loans for such day.

(b) Each Euro−Dollar Revolver Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the Applicable Margin *plus* the applicable Adjusted London Interbank Offered Rate. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

The "*Adjusted London Interbank Offered Rate*" applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (i) the applicable London Interbank Offered Rate by (ii) 1.00 *minus* the Euro−Dollar Reserve Percentage.

The "*London Interbank Offered Rate*" applicable to any Interest Period means:

(i) the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate that appears on the page of the Telerate screen (or any successor thereto) that displays an average British Bankers Association Interest Settlement Rate for deposits in dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 A.M. (London time) two Euro−Dollar Business Days prior to the first day of such Interest Period, or

(ii) if the rate referenced in the preceding clause (i) does not appear on such page or service or such page or service shall cease to be available, the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 A.M. (London time) two Euro−Dollar Business Days prior to the first day of such Interest Period, or

(iii) if the rates referenced in the preceding clauses (i) and (ii) are not available, the rate per annum determined by the Administrative Agent as the rate of interest at which deposits in dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Euro−Dollar Loan being made, continued or converted by Wachovia Bank, National Association, and with a term equivalent to such Interest Period, would be offered by Wachovia Bank, National Association's London Branch to major banks in the London interbank eurodollar market at their request at approximately 4:00 P.M. (London time) two Euro−Dollar Business Days prior to the first day of such Interest Period.

"*Euro−Dollar Reserve Percentage*" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five bil−

lion dollars in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro−Dollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non−United States office of any Lender to United States residents). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro−Dollar Reserve Percentage.

(c) Any overdue principal of or interest on any Euro−Dollar Revolver Loan shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment, at a rate per annum equal to the sum of 2% *plus* the higher of (i) the Applicable Margin *plus* the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (x) the rate per annum at which one day (or, if such amount due remains unpaid more than three Euro−Dollar Business Days, then for such other period of time not longer than six months as the Administrative Agent may select) deposits in dollars in an amount approximately equal to such overdue payment due to Wachovia Bank, National Association are offered to Wachovia Bank, National Association, in the London interbank market for the applicable period determined as provided above by (y) 1.00 *minus* the Euro−Dollar Reserve Percentage (or, if the circumstances described in clause (a) or (b) of Section 8.01 shall exist, at a rate per annum equal to the sum of 2% *plus* the rate applicable to Domestic Revolver Loans for such day) and (ii) the sum of the Applicable Margin plus the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due.

(d) Each Term Loan shall bear interest on the outstanding principal amount thereof from the date such Term Loan is made until it becomes due at the rate or rates per annum provided in the Term Loan Addendum and such interest shall be payable on the dates set forth in the Term Loan Addendum.

(e) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the Lenders of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.07. Commitment Fees.

(a) The Company shall pay to the Administrative Agent for the account of each Revolver Lender in accordance with its Pro Rata Share a commitment fee at a rate per annum equal to the Applicable Margin. Such commitment fee shall accrue from and including the Closing Date to but excluding the Revolver Maturity Date (or earlier date of termination of the Revolver Commitments in their entirety), on the actual daily amount of the Unused Revolver Commitments, and shall be payable quarterly in arrears on the last day of each calendar quarter and upon the date of termination of the Revolver Commitments in their entirety.

(b) The Company shall pay to the Administrative Agent for the account of each Term Lender such fees in such amounts and at such times as shall be set forth in the Term Loan Addendum.

Section 2.08. Termination or Reduction of Revolver Commitments; Scheduled Amortization of Term Loans.

(a) Optional Reductions. During the Revolver Credit Period, the Company may, upon at least three Domestic Business Days' notice to the Administrative Agent, (i) terminate the Revolver Commitments at any time, if no Revolver Loans or L/C Obligations are outstanding at such time or (ii) ratably reduce from time to time by an aggregate amount of $25,000,000 or any larger multiple of $5,000,000, the Aggregate Revolver Commitments in excess of the Revolver Outstandings.

(b) Scheduled Amortization of Term Loans. The Borrower shall repay the Term Loans in accordance with the amortization schedule set forth in the applicable Term Loan Addendum.

Section 2.09. Method of Electing Interest Rates.

(a) The Loans included in each Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Group of Loans (subject in each case to the provisions of Article 8), as follows:

(i) if such Loans are Domestic Loans, the Borrower may elect to convert such Loans to Euro−Dollar Loans as of any Euro−Dollar Business Day; and

(ii) if such Loans are Euro−Dollar Loans, the Borrower may elect to convert such Loans to Domestic Loans or elect to continue such Loans as Euro−Dollar Loans for an additional Interest Period, in each case effective on the last day of the then current Interest Period applicable to such Loans.

Each such election shall be made by delivering a notice (a "*Notice of Interest Rate Election*") to the Administrative Agent at least three Euro−Dollar Business Days (or, if the Borrower wishes to request an Interest Period of twelve months, four Euro−Dollar Business Days, subject to the notice and consent conditions set forth in Section 2.02) before the conversion or continuation selected in such notice is to be effective. A Notice of Interest Rate Election may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans; *provided* that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such Notice applies, and the remaining portion to which it does not apply, are each $25,000,000 or any larger multiple of $5,000,000.

(b) Each Notice of Interest Rate Election shall specify:

(i) the Group of Loans (or portion thereof) to which such notice applies;

(ii) the date on which the conversion or continuation selected in such notice is to be effective, which shall comply with the applicable clause of subsection (a) above;

(iii) if the Loans comprising such Group are to be converted, the new type of Loans and, if such new Loans are Euro−Dollar Loans, the duration of the initial Interest Period applicable thereto; and

(iv) if such Loans are to be continued as Euro−Dollar Loans for an additional Interest Period, the duration of such additional Interest Period.

Each Interest Period specified in a Notice of Interest Rate Election shall comply with the provisions of the definition of Interest Period.

(c) Upon receipt of a Notice of Interest Rate Election from the Borrower pursuant to subsection (a) above, the Administrative Agent shall promptly notify each Lender of the contents thereof and such notice shall not thereafter be revocable by the Borrower. If the Borrower fails to deliver a timely Notice of Interest Rate Election to the Administrative Agent for any Group of Euro−Dollar Loans, such Loans shall be converted into Domestic Loans on the last day of the then current Interest Period applicable thereto.

Section 2.10. Prepayments.

(a) Subject in the case of any Euro−Dollar Loans to Section 2.12, the Borrower may, upon at least one Domestic Business Day's notice to the Administrative Agent, prepay the Group of Domestic Revolver Loans, or, upon three Euro−Dollar Business Days' notice to the Administrative Agent, prepay any Group of Euro−Dollar Revolver Loans, in each case in whole at any time, or from time to time in part in amounts aggregating $25,000,000 or any larger multiple of $5,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

(b) Upon receipt of a notice of prepayment pursuant to this Section or the Term Loan Addendum, the Administrative Agent shall promptly notify each applicable Lender of the contents thereof and of such Lender's ratable share of such prepayment and such notice shall not thereafter be revocable by the Borrower or the Company. Each such prepayment shall be applied to prepay ratably the Loans of the several Lenders included in the relevant Group or Borrowing.

(c) On the date of any reduction of Revolver Commitments, the Borrower shall repay such principal amount (together with accrued interest thereon) of outstanding Revolver Loans and/or Cash Collateralize outstanding Letters of Credit in an aggregate amount equal to the amount, if any, by which the Revolver Outstandings exceed the Aggregate Revolver Commitments as then reduced. Each prepayment of the Revolver Loans pursuant to Section 2.10(a) shall be applied to prepay ratably the Revolver Loans of all the Revolver Lenders, and shall be applied to prepay such Group or Groups of Loans as shall have been designated in the applicable notice (or, if no such designation shall have been made, as the Administrative Agent shall select in its discretion).

Section 2.11. General Provisions as to Payments.

(a) Except as otherwise expressly provided herein, the Borrower shall make each payment of principal of, and interest on, the Loans and each payment of Letter of Credit Fees

and other fees and other amounts payable hereunder, not later than 12:00 Noon (New York City time) on the date when due, in Federal or other funds immediately available in New York City, without off set or counterclaim, to the Administrative Agent at its address referred to in Section 10.01. The Administrative Agent will promptly distribute to each Lender and the Issuing Lender, as applicable, its ratable share of each such payment received by the Administrative Agent for the account of the Lenders or such Issuing Lender. Whenever any payment of principal of, or interest on, the Domestic Loans or of Letter of Credit Fees or other fees or other amounts payable hereunder shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Euro−Dollar Loans shall be due on a day which is not a Euro−Dollar Business Day, the date for payment thereof shall be extended to the next succeeding Euro−Dollar Business Day unless such Euro−Dollar Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Euro−Dollar Business Day.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due from the Borrower to the Lenders or the Issuing Lender hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender or the Issuing Lender on such due date an amount equal to the amount then due such Lender or the Issuing Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender or the Issuing Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender or the Issuing Lender together with interest thereon, for each day from the date such amount is distributed to such Lender or the Issuing Lender until the date such Lender or the Issuing Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.12. Funding Losses. If the Borrower makes any payment of principal with respect to any Euro−Dollar Loan or any Euro−Dollar Loan is converted to a Domestic Loan (pursuant to Articles 2, 6 or 8 or otherwise) on any day other than the last day of an Interest Period applicable thereto, or the last day of an applicable period fixed pursuant to Section 2.06(c), or if the Borrower fails to borrow, convert, continue or prepay any Euro−Dollar Loans after notice has been given to any Lender in accordance with Sections 2.09 or 2.10(a), the Borrower shall reimburse each Lender within 15 days after written demand for any resulting loss or expense incurred by it (or by an existing or prospective Participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or conversion or failure to borrow or prepay, *provided* that such Lender shall have delivered to the Company a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error. Any Lender requesting compensation pursuant to this Section 2.12 shall notify the Borrower of such request on or before the date that is three Euro−Dollar Business Days after the event giving rise to such request.

Section 2.13. Computation of Interest and Fees. Interest based on the Prime Rate and commitment fees hereunder shall be computed on the basis of a year of 365 days (or 366 days in

a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). All other interest and fees hereunder shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.14. Change of Control. If a Change of Control shall occur, the Borrower shall, within ten days after the occurrence thereof, give each Lender notice thereof, which notice shall describe in reasonable detail the facts and circumstances giving rise thereto and shall specify an Optional Termination Date for purposes of this Section (the "*Optional Termination Date*"), which date shall not be less than 30 nor more than 60 days after the date of such notice. Each Lender may, by notice to the Company and the Administrative Agent given not less than three Domestic Business Days prior to the Optional Termination Date, terminate its commitment (if any) to make Loans and to participate in additional L/C Credit Extensions, which shall thereupon be terminated, and declare the Loan held by it (together with accrued interest thereon) and any other amounts payable hereunder for its account to be, and such Loan and such other amounts shall thereupon become, due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company and the Borrower, in each case effective on the Optional Termination Date.

A "*Change of Control*" shall occur if any person or group of persons (within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended), other than Philip F. Anschutz, Anschutz Company or any of their Affiliates, obtain ownership or control (whether in one transaction or one or more series of transactions) of more than 50% of the outstanding shares of common stock of the Company or of the shares of the Company entitled to vote on the election of members of the board of directors of the Company or if a change of control event with respect to the Company shall occur under any agreement or instrument evidencing any Material Debt.

Section 2.15. Increase in Revolver Commitments; New Term Tranche.

(a) Provided no Default has occurred and is continuing or would result therefrom, upon notice to the Administrative Agent (which shall promptly notify the Revolver Lenders), the Borrower may from time to time, request an increase in the Aggregate Revolver Commitments in a minimum amount equal to $50,000,000 and in an aggregate amount for all such requests not to exceed $400,000,000; *provided* that after giving effect to any such increase in the Aggregate Revolver Commitments, (y) the Aggregate Revolver Commitments shall not exceed $1,250,000,000 and (z) Total Exposure shall not exceed $2,500,000,000. At the time of sending such notice, the Borrower (in consultation with the Administrative Agent) shall specify the time period within which each Revolver Lender is requested to respond (which shall in no event be less than ten Domestic Business Days from the date of delivery of such notice to the Revolver Lenders). Each Revolver Lender shall notify the Administrative Agent within such time period whether or not it agrees to increase its Revolver Commitment and, if so, whether by an amount equal to, greater than, or less than its Pro Rata Share of such requested increase. Any Revolver Lender not responding within such time period shall be deemed to have declined to increase its Revolver Commitment. The Administrative Agent shall notify the Borrower and each Revolver Lender of the Lenders' responses to each request made hereunder. To achieve the full amount of

a requested increase, the Borrower may also invite additional Eligible Assignees to become Lenders pursuant to a joinder agreement in form and substance reasonably satisfactory to the Administrative Agent.

(b) If the Aggregate Revolver Commitments are increased in accordance with this Section, the Administrative Agent and the Borrower shall determine the effective date (the "*Increase Effective Date*") and the final allocation of such increase. The Administrative Agent shall promptly notify the Borrower, the Issuing Lender and the Revolver Lenders of the final allocation of such increase and the Increase Effective Date. As a condition precedent to such increase, the Borrower shall deliver to the Administrative Agent a certificate of each Loan Party dated as of the Increase Effective Date (in sufficient copies for each Revolver Lender) signed by the chief financial officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of such Loan Party (i) certifying and attaching the resolutions adopted by such Loan Party approving or consenting to such increase and (ii) in the case of the Company and the Borrower, certifying that, before and after giving effect to such increase, (A) the representations and warranties contained in Article 4 and the other Loan Documents are true and correct (or, with respect to any representation or warranty which is not qualified by materiality or material adverse effect, shall be true in all material respects) on and as of the Increase Effective Date except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date and (B) no Default exists. The Borrower shall prepay any Revolver Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to Section 2.12) to the extent necessary to keep the outstanding Revolver Loans ratable with any revised Pro Rata Shares arising from any nonratable increase in the Revolver Commitments under this Section.

(c) This Section shall supersede any provisions in Sections 10.04 or 10.05 to the contrary.

(d) At any time during the Revolver Credit Period and from time to time, the Borrower may arrange for any one or more Lenders or other financial institutions (approved by the Administrative Agent, acting in its reasonable discretion) to provide Term Loans on the terms hereof, as supplemented by a Term Loan Addendum and/or pursuant to a separate credit agreement and other loan documentation (any term loans provided pursuant to any such separate loan documentation being "Pari Term Loans"); *provided* that (i) immediately after giving effect to the Term Borrowing in the aggregate principal amount permitted under the Term Loan Addendum or other loan documentation, the aggregate amount of Term Loans and Pari Term Loans made following the Closing Date shall not exceed $1,250,000,000; *provided* that, such permitted additional Term Loan amount may be further increased by an amount equal to the excess of $1,250,000,000 over the greater of (y) $850,000,000 and (z) the Aggregate Revolver Commitments then in effect (including after giving effect to any increase in the Revolver Commitments permitted under Sections 2.15(a) and (b)); provided further that after giving effect to any such increase in Term Loans, (y) Term Outstandings shall not exceed $1,650,000,000 and (z) Total Exposure shall not exceed $2,500,000,000; (ii) as of the date of the Term Loan Addendum or other loan documentation, the incurrence of the additional Debt in the form of Term Loans in the aggregate principal amount permitted under the Term Loan Addendum or Pari Term Loans under such other loan documentation and the Liens securing such Term Loans and Pari Term Loans

under the Collateral Documents or such other loan documentation are permitted under each then outstanding indenture of the Company and its Subsidiaries; (iii) the Term Maturity Date (or the final maturity date of any Pari Term Loans) shall not be prior to the Revolver Maturity Date; (iv) if, pursuant to the Term Loan Addendum or other loan documentation any scheduled amortizations of the Term Loans or Pari Term Loans during a calendar year will exceed 1% of the Term Outstandings (or outstandings of Pari Term Loans, as applicable) in such year, such scheduled amortizations shall have been approved by the Administrative Agent and (v) any separate credit agreement or other loan documentation with respect to any Pari Term Loans shall not have prepayment events, covenants or events of default that are more restrictive than the corresponding provisions of this Agreement. Upon execution and delivery by the Company, the Borrower, the Administrative Agent and each Lender or other financial institution party thereto of the Term Loan Addendum each such Lender or other financial institution shall be a "Term Lender" for all purposes hereunder with all rights and obligations of a Term Lender hereunder and the Term Loans made pursuant to such Term Loan Addendum or other loan documentation shall be "Term Loans" for all purposes hereunder.

(e) No Lender shall have any obligation to provide any increased Revolver Commitment or to fund any Term Loan or Pari Term Loan pursuant to this Section 2.15, except as otherwise agreed in writing by such Lender.

Section 2.16. Letters of Credit.

(a) The Letter of Credit Revolver Commitment.

(i) Subject to the terms and conditions set forth herein, (A) the Issuing Lender agrees, in reliance upon the agreements of the Revolver Lenders set forth in this Section 2.16, (1) from time to time on any Business Day during the Revolver Credit Period, to issue Letters of Credit for the account of the Borrower, and to amend or extend Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drawings under the Letters of Credit; and (B) the Lenders severally agree to participate in Letters of Credit issued for the account of the Borrower and any drawings thereunder; *provided* that after giving effect to any L/C Credit Extension with respect to any Letter of Credit, (x) the Revolver Outstandings shall not exceed the Aggregate Revolver Commitments, and (y) the Outstanding Amount of the L/C Obligations shall not exceed the Letter of Credit Sublimit (for the avoidance of doubt, for purposes of the foregoing clauses (x) and (y) the amount of any Letter of Credit which provides for automatic increases in the amount thereof shall be deemed to be its maximum amount after giving effect to all such increases). Each request by the Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by the Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the Revolver Credit Period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed.

(ii) The Issuing Lender shall not issue any Letter of Credit, if:

(A) subject to Section 2.16(b)(iii), the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last extension, unless the Required Revolver Lenders have approved such expiry date;

(B) the expiry date of such requested Letter of Credit would occur after the Revolver Maturity Date, unless all the Revolver Lenders have approved such expiry date; or

(C) such Letter of Credit is to be denominated in a currency other than Dollars.

(iii) The Issuing Lender shall not be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any governmental authority or arbitrator shall by its terms purport to enjoin or restrain the Issuing Lender from issuing such Letter of Credit, or any law, rule or regulation applicable to the Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over the Issuing Lender shall prohibit, or request that the Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the Issuing Lender is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the Issuing Lender in good faith deems material to it;

(B) the issuance of such Letter of Credit would violate one or more policies of the Issuing Lender generally applicable to its issuances of letters of credit;

(C) except as otherwise agreed by the Administrative Agent and the Issuing Lender, such Letter of Credit is in an initial stated amount less than $100,000, in the case of a commercial Letter of Credit, or $500,000, in the case of a standby Letter of Credit;

(D) a default of any Revolver Lender's obligations to fund under Section 2.16(c) exists or any Revolver Lender has failed to make its Revolving Loans available when required, unless the Issuing Lender has entered into satisfactory arrangements with the Borrower or such Revolver Lender to eliminate the Issuing Lender's risk with respect to such Revolver Lender.

(iv) The Issuing Lender shall not amend any Letter of Credit if the Issuing Lender would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(v) The Issuing Lender shall be under no obligation to amend any Letter of Credit if (A) the Issuing Lender would have no obligation at such time to issue such Letter of Credit in its

amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(vi) The Issuing Lender shall act on behalf of the Revolver Lenders with respect to any Letters of Credit issued by it, and the Issuing Lender shall have all of the benefits and immunities (A) provided to the Administrative Agent in Article 7 with respect to any acts taken or omissions suffered by the Issuing Lender in connection with Letters of Credit issued by it or proposed to be issued by it as fully as if the term "Administrative Agent" as used in Article 7 included the Issuing Lender with respect to such acts or omissions, and (B) as additionally provided herein with respect to the Issuing Lender.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto−Extension Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the Issuing Lender (with a copy to the Administrative Agent) in the form of a Letter of Credit Application, appropriately completed and signed. Such Letter of Credit Application must be received by the Issuing Lender and the Administrative Agent not later than 11:00 A.M. (New York City time) at least two Business Days (or such later date and time as the Administrative Agent and the Issuing Lender may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the Issuing Lender: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the Issuing Lender may reasonably require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail reasonably satisfactory to the Issuing Lender (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the Issuing Lender may reasonably require. Additionally, the Borrower shall furnish to the Issuing Lender and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the Issuing Lender or the Administrative Agent may reasonably require.

(ii) Promptly after receipt of any Letter of Credit Application, the Issuing Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, the Issuing Lender will provide the Administrative Agent with a copy thereof. Unless the Issuing Lender has received written notice from any Revolver Lender, the Administrative Agent or any Loan Party, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article 3 shall not then be satisfied, then, subject to the terms and conditions hereof, the Issuing Lender shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the

applicable amendment, as the case may be, in each case in accordance with the Issuing Lender's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Revolver Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Lender a risk participation in such Letter of Credit in an amount equal to the product of such Revolver Lender's Pro Rata Share times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the Issuing Lender may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "*Auto−Extension Letter of Credit*"); *provided* that any such Auto−Extension Letter of Credit must permit the Issuing Lender to prevent any such extension at least once in each twelve−month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "*Non−Extension Notice Date*") in each such twelve−month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the Issuing Lender, the Borrower shall not be required to make a specific request to the Issuing Lender for any such extension. Once an Auto−Extension Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the Issuing Lender to permit the extension of such Letter of Credit at any time to an expiry date not later than the Revolver Maturity Date; *provided*, *however*, that the Issuing Lender shall not permit any such extension if (A) the Issuing Lender has determined that it would not be permitted at such time to issue such Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.16(a) or otherwise), or (B) it has received notice (which may be by telephone or in writing and which has not been rescinded) on or before the day that is five Business Days before the Non−Extension Notice Date (1) from the Administrative Agent that the Required Revolver Lenders have elected not to permit such extension or (2) from the Administrative Agent, any Revolver Lender or the Borrower that one or more of the applicable conditions specified in Section 3.03 is not then satisfied, and in each such case directing the Issuing Lender not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the Issuing Lender will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the Issuing Lender shall notify the Borrower and the Administrative Agent thereof. Not later than 11:00 A.M. (New York City time) on the date of any payment by the Issuing Lender under a Letter of Credit (each such date, an "*Honor Date*"), the Borrower shall reimburse the Issuing Lender through the Administrative Agent in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the Issuing Lender by such time, the Administrative Agent shall promptly notify each Revolver Lender of the Honor Date, the amount of the unreimbursed drawing (the "*Unreimbursed Amount*"), and the amount of such Revolver Lender's Pro Rata Share thereof. In such event, the Borrower shall be deemed to have

requested a Borrowing of Domestic Revolver Loans to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.01(a) for the principal amount of Domestic Revolver Loans, but subject to the amount of the unutilized portion of the Aggregate Revolver Commitments and the conditions set forth in Section 3.03 (other than the delivery of a Notice of Borrowing). Any notice given by the Issuing Lender or the Administrative Agent pursuant to this Section 2.16(c)(i) may be given by telephone if immediately confirmed in writing; *provided* that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender shall upon any notice pursuant to Section 2.16(c)(i) make funds available to the Administrative Agent for the account of the Issuing Lender to the Administrative Agent in an amount equal to its Pro Rata Share of the Unreimbursed Amount not later than 1:00 P.M. (New York City time) on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 2.16(c)(iii), each Revolver Lender that so makes funds available shall be deemed to have made a Domestic Revolver Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the Issuing Lender.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by Domestic Revolver Loans because the conditions set forth in Section 3.03 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the Issuing Lender an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate applicable to overdue principal of Domestic Revolver Loans. In such event, each Revolver Lender's payment to the Administrative Agent for the account of the Issuing Lender pursuant to Section 2.16(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Revolver Lender in satisfaction of its participation obligation under this Section 2.16.

(iv) Until each Revolver Lender funds its Domestic Revolver Loan or L/C Advance pursuant to this Section 2.16(c) to reimburse the Issuing Lender for any amount drawn under any Letter of Credit, interest in respect of such Revolver Lender's Pro Rata Share of such amount shall be solely for the account of the Issuing Lender.

(v) Each Lender's obligation to make Domestic Revolver Loans or L/C Advances to reimburse the Issuing Lender for amounts drawn under Letters of Credit, as contemplated by this Section 2.16(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Revolver Lender may have against the Issuing Lender, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; *provided*, *however*, that each Revolver Lender's obligation to make Domestic Revolver Loans pursuant to this Section 2.16(c) is subject to the conditions set forth in Section 3.03 (other than delivery by the Borrower of a Notice of Borrowing). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the Issuing Lender for the amount of any payment made by the Issuing Lender under any Letter of Credit, together with interest as provided herein.

(vi) If any Revolver Lender fails to make available to the Administrative Agent for the account of the Issuing Lender any amount required to be paid by such Revolver Lender pursuant to the foregoing provisions of this Section 2.16(c) by the time specified in Section 2.16(c)(ii), the Issuing Lender shall be entitled to recover from such Revolver Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Issuing Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Issuing Lender in accordance with banking industry rules on interbank compensation. A certificate of the Issuing Lender submitted to any Revolver Lender (through the Administrative Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the Issuing Lender has made a payment under any Letter of Credit and has received from any Revolver Lender such Revolver Lender's L/C Advance in respect of such payment in accordance with Section 2.16(c), if the Administrative Agent receives for the account of the Issuing Lender any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral applied thereto by the Administrative Agent), the Administrative Agent will promptly distribute to such Revolver Lender its Pro Rata Share thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by the Administrative Agent.

(ii) If any payment received by the Administrative Agent for the account of the Issuing Lender pursuant to Section 2.16(c)(i) is required to be returned under any of the circumstances described in Section 10.13 (including pursuant to any settlement entered into by the Issuing Lender in its discretion), each Revolver Lender shall pay to the Administrative Agent for the account of the Issuing Lender its Pro Rata Share thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Revolver Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Revolver Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Obligations Absolute. Without limiting the rights of Borrower in Section 2.16(f), the obligation of the Borrower to reimburse the Issuing Lender for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Issuing Lender or any other Person, whether in con−

nection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the Issuing Lender under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the Issuing Lender under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor−in−possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any bankruptcy, insolvency or other debtor relief law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will immediately notify the Issuing Lender. The Borrower shall be conclusively deemed to have waived any such claim against the Issuing Lender and its correspondents unless such notice is given as aforesaid.

(f) Role of Issuing Lender. Each Revolver Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the Issuing Lender shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the Issuing Lender, the Administrative Agent, any of their respective Affiliates nor any correspondent, participant or assignee of the Issuing Lender shall be liable to any Revolver Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Revolver Lenders or the Required Revolver Lenders, as applicable; (ii) any action taken or omitted in the absence of bad faith, gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; *provided*, *however*, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the Issuing Lender, the Administrative Agent, any Revolving Lender or any of their respective Affiliates nor any correspondent, participant or assignee of the Issuing Lender or any Revolving Lender shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.16(e); *provided*, *however*, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the Issuing Lender, and the Issuing

Lender may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the Issuing Lender's bad faith, willful misconduct or gross negligence or the Issuing Lender's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the Issuing Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the Issuing Lender shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(g) Cash Collateral. Upon the request of the Administrative Agent, (i) if the Issuing Lender has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the Revolver Maturity Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations. Section 6.01 sets forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of Section 2.14, this Section 2.16 and Section 6.01, "*Cash Collateralize*" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Issuing Lender and the Revolver Lenders, as collateral for the L/C Obligations, cash or deposit account balances in an amount equal to 102% of the L/C Obligations being Cash Collateralized pursuant to documentation in form and substance satisfactory to the Administrative Agent and the Issuing Lender (which documents are hereby consented to by the Revolver Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Administrative Agent, for the benefit of the Issuing Lender and the Revolver Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non−interest bearing deposit accounts at Wachovia Bank, National Association.

(h) Applicability of ISP and UCP. Unless otherwise expressly agreed by the Issuing Lender and the Borrower when a Letter of Credit is issued, (i) the rules of the ISP shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce at the time of issuance, shall apply to each commercial Letter of Credit.

(i) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent for the account of each Revolver Lender in accordance with its Pro Rata Share, a Letter of Credit fee (the "*Letter of Credit Fee*") for each Letter of Credit equal to the Applicable Margin *times* the daily amount available to be drawn under such Letter of Credit. Letter of Credit Fees shall be (i) computed on a quarterly basis in arrears and (ii) due and payable on the last day of each calendar quarter, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Revolver Maturity Date and thereafter on demand. If there is any change in the Applicable Margin during any quarter, the daily amount available to be drawn under each Letter of Credit shall be computed and multiplied by the Applicable Margin separately for each period during such quarter that such Applicable Margin was in effect. Notwithstanding anything to the

contrary contained herein, upon the request of the Required Revolver Lenders, while any Event of Default exists, overdue Obligations shall accrue at the rate applicable to overdue principal of Domestic Revolver Loans.

(j) Fronting Fee and Documentary and Processing Charges Payable to Issuing Lender. The Borrower shall pay directly to the Issuing Lender for its own account a fronting fee with respect to each Letter of Credit, at a rate per annum equal to 0.25% per annum, computed on the daily amount available to be drawn under such Letter of Credit on a quarterly basis in arrears. Such fronting fee shall be due and payable on the last day of each calendar quarter in respect of the most recently−ended quarterly period (or portion thereof, in the case of the first payment), commencing with the first such date to occur after the issuance of such Letter of Credit, on the Revolving Maturity Date and thereafter on demand. In addition, the Borrower shall pay directly to the Issuing Lender for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the Issuing Lender relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

ARTICLE 3
CONDITIONS

Section 3.01. Closing. The closing hereunder shall occur upon receipt by the Administrative Agent (or its counsel) of the following (in the case of any document, dated the Closing Date unless otherwise indicated):

(a) duly executed counterparts hereof signed by each of the Borrower, the Guarantor, the Revolver Lenders and the Administrative Agent (or, in the case of any party as to which an executed counterpart shall not have been received, written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page) that such party has signed a counterpart hereof);
(b) a duly executed Note for the account of each Revolver Lender which has requested a Note on or before the Closing Date;

(c) (i) duly executed counterparts of the Security and Pledge Agreement and (ii) evidence satisfactory to the Administrative Agent that the Collateral and Guaranty Requirement shall have been satisfied;

(d) opinions of Louise Turilli, Deputy General Counsel and Vice President of the Company, Linklaters, special counsel to the Loan Parties, and Bob Connelly, Deputy General Counsel of the Company covering the matters set forth in Exhibit D−1, D−2 and D−3 hereto, respectively, and such additional matters relating to the transactions contemplated hereby as the Required Lenders may reasonably request;

(e) evidence satisfactory to the Administrative Agent of the payment of all fees and other amounts payable to the Administrative Agent for the account of the Lenders or the Administrative Agent on or prior to the Closing Date, including, to the extent invoiced, reimbursement of all out−of−pocket expenses (including, without limitation, legal fees and expenses) required to be reimbursed or paid by the Borrower or the Company hereunder;

(f) a certificate signed by the chief financial officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of the Company certifying (A) as to the facts specified in clauses (d) and (e) of Section 3.03 as of the Closing Date, and (B) that if Loans or L/C Obligations were outstanding the Company and Corp. would be in compliance with Section 5.06 as of June 30, 2005, calculated on a pro forma basis after giving effect to the incurrence or repayment of any Debt subsequent to June 30, 2005, and attaching a calculation on such basis of each of the ratios set forth in Section 5.06 as of such date;

(g) evidence satisfactory to the Administrative Agent that all commitments under the Existing Credit Agreement have been or concurrently with the Closing Date are being terminated, all loans outstanding thereunder have been repaid in full (together with accrued and unpaid interest thereon, any applicable breakage costs and accrued fees and expenses), all Liens securing obligations under the Existing Credit Agreement have been or concurrently with the Closing Date are being released and the Company's guarantee under the Existing Credit Agreement has been or concurrently with the Closing Date is being released; and

(h) all documents the Administrative Agent may reasonably request relating to the existence of the Company and its Subsidiaries, the corporate authority for and the validity of the Loan Documents, and any other matters relevant hereto, all in form and substance satisfactory to the Administrative Agent.

The Administrative Agent shall promptly notify the Company and the Lenders of the Closing Date, and such notice shall be conclusive and binding on all parties hereto.

Section 3.02. Condition to Term Loans. The obligation of any Term Lender to make a Term Loan under this Agreement shall be subject to the satisfaction of the following conditions:

(a) the Administrative Agent (or its counsel) shall have received counterparts of the applicable Term Loan Addendum signed by the Borrower and the Company and each of the Term Lenders listed on the signature pages thereof (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of facsimile or other written confirmation from such party that it has executed a counterpart thereof);

(b) the Administrative Agent shall have received such evidence (including such opinions of counsel to the Loan Parties) as it may reasonably request to confirm the Borrower's due authorization of the transactions contemplated by the applicable Term

Loan Addendum and the validity and enforceability of the obligations of the Borrower and the Company resulting therefrom;

(c) immediately after such Term Loan is made, the limitation in Section 2.15(d)(i) shall have been complied with; and

(d) any other conditions set forth in the applicable Term Loan Addendum.

Section 3.03. All Credit Extensions. The obligation of any Lender to make a Loan and of the Issuing Lender to make any L/C Credit Extension on the occasion of any Credit Extension is subject to the satisfaction of the following conditions:

(a) the Closing Date shall have occurred on or prior to October 21, 2005;

(b) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.02 (or in the case of an L/C Credit Extension, receipt by the Issuing Lender and the Administrative Agent of the items required by Section 2.16);

(c) immediately before and after such Credit Extension, the Total Outstandings shall not exceed the Total Exposure;

(d) immediately before and after such Credit Extension, no Default (including under Section 5.07 or Section 5.12) shall have occurred and be continuing;

(e) the representations and warranties of the Loan Parties contained in the Loan Documents shall be true (or, with respect to any representation and warranty which is not qualified by materiality or material adverse effect, shall be true in all material respects) on and as of the date of such Credit Extension, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true (or, with respect to any such representation and warranty which is not qualified by materiality or material adverse effect, shall be true in all material respects) on and as of such earlier date; and

(f) if no Loans or L/C Obligations were outstanding as of the last day of the most recently ended fiscal quarter for which financial statements are required to have been delivered pursuant to Section 5.01, the Company and Corp. would have been in compliance with Section 5.06 had Loans or L/C Obligations been outstanding on such date.

Each Credit Extension hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Extension as to the satisfaction of the conditions specified in clauses (c), (d), (e) and (f) of this Section.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

Each of the Loan Parties party to this Agreement represents and warrants that:

Section 4.01. Corporate Existence and Power. Each Loan Party is a corporation duly incorporated, validly existing and in good standing under the laws of the state of its incorporation, and has all corporate powers and all material governmental licenses, authorizations, qualifications, consents and approvals required to carry on its business as now conducted.

Section 4.02. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by each Loan Party of each Loan Document to which it is a party are within such Person's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official except, with respect to the Security and Pledge Agreement and the transactions contemplated thereby, as set forth in the Collateral Documents, and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by−laws of such Person or of any material agreement (including in any event the QSC Notes Indenture), judgment, injunction, order, decree or other instrument binding upon such Person or any Significant Subsidiary or result in the creation or imposition of any Lien on any material asset of such Person or any Significant Subsidiary (other than the Liens created by the Collateral Documents).

Section 4.03. Binding Effect. Each Loan Document (other than the Notes) constitutes a valid and binding agreement of each Loan Party thereto, and the Notes, when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of the Borrower, in each case enforceable in accordance with its terms except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

Section 4.04. Financial Information.

(a) (i) The consolidated balance sheet of the Company and its Consolidated Subsidiaries as of each of December 31, 2003 and December 31, 2004 and the related consolidated statements of income and cash flows for each fiscal year ended December 31, 2002, December 31, 2003 and December 31, 2004, reported on by KPMG LLP and set forth in the Company's Form 10−K for the fiscal year ended December 31, 2004 and (ii) the consolidated balance sheet of the Company and its Consolidated Subsidiaries as of June 30, 2005 and the related consolidated statements of income and cash flows for the portion of the Company's fiscal year ended at the end of such quarter and set forth in the Company's Form 10−Q for the quarter ended June 30, 2005, a copy of each of which has been made available to each of the Lenders, taken together, fairly present in all material respects, in conformity with generally accepted accounting principles, the consolidated financial position of the Company and its Consolidated Subsidiaries as of such date specified therein and their consolidated results of operations and cash flows for such period specified therein, subject, in the case of the financial statements described in clause (ii) of this Section 4.04(a), to changes resulting from audit and year−end adjustments and the absence of footnotes.

(b) (i) The consolidated balance sheet of Corp. as of each of December 31, 2003 and December 31, 2004 and the related consolidated statement of income and cash flows for each fiscal year ended December 31, 2002, December 31, 2003 and December 31, 2004, reported on by KPMG LLP and set forth in Corp.'s Form 10−K for the fiscal year ended December 31, 2004, and (ii) the consolidated balance sheet of Corp. as of June 30, 2005 and the related consolidated statements of income and cash flows for the portion of Corp.'s fiscal year then ended and set forth in Corp.'s Form 10−Q for the quarter ended June 30, 2005, a copy of each of which has been made available to each of the Lenders, taken together, fairly present in all material respects, in conformity with generally accepted accounting principles, the consolidated financial position of Corp. and its Consolidated Subsidiaries as of the date specified therein and their consolidated results of operations for the period specified therein, subject, in the case of the financial statements described in clause (ii) of this Section 4.04(b), to changes resulting from audit and year−end adjustments and the absence of footnotes.

(c) Except as set forth in Schedule 4.05, since December 31, 2004, there has been no Material Adverse Change.

Section 4.05. Litigation. Except for the Pending Matters, to the knowledge of the Company there is no action, suit or proceeding pending, against the Company or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which would materially adversely affect the consolidated financial position or consolidated results of operations of the Company and its Consolidated Subsidiaries, considered as a whole, or which in any manner draws into question the validity of any Loan Document.

Section 4.06. Compliance with ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan and is in compliance in all respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Plan, except where failure to comply would not have a material adverse effect on the consolidated financial position or consolidated results of operations of the Company and its Consolidated Subsidiaries, considered as a whole. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, in either case which has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code, or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 4.07. Environmental Matters.

(a) The operations of the Company and each of its Subsidiaries, to the best knowledge of Borrower, comply in all respects with all Environmental Laws except such non−compliance which would not (if enforced in accordance with applicable law) reasonably be expected to result, individually or in the aggregate, in a material adverse effect on the financial po−

sition or results of operations of the Company and its Consolidated Subsidiaries, considered as a whole.

(b) Except as specifically identified in Schedule 4.07, to the best knowledge of Borrower, the Company and each of its Subsidiaries have obtained all material licenses, permits, authorizations and registrations required under any Environmental Laws ("*Environmental Permits*") necessary for their respective operations, and all such Environmental Permits are in good standing, and, to the best knowledge of Borrower, the Company and each of its Subsidiaries is in compliance with all material terms and conditions of such Environmental Permits.

(c) Except as specifically identified in Schedule 4.07, to the best knowledge of Borrower, there are neither any conditions or circumstances known to the Company which may give rise to any claims or liabilities respecting any Environmental Laws or Hazardous Substances arising from the operations of the Company or its Subsidiaries (including, without limitation, off−site liabilities), nor any additional costs of compliance with Environmental Laws, which collectively have an aggregate potential liability in excess of $50,000,000.

Section 4.08. Taxes. United States Federal income tax returns of the Company and its Subsidiaries have been examined and closed through the fiscal year ended December 31, 1993. The Company and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Company or any Subsidiary, except for taxes the amount, applicability or validity of which is being contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Company, adequate.

Section 4.09. Subsidiaries. Each of the Company's corporate Significant Subsidiaries (including, but not limited to, QSC) is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all corporate powers and all material governmental licenses, authorizations, qualifications, consents and approvals required to carry on its business as now conducted.

Section 4.10. Not an Investment Company. No Loan Party is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 4.11. Full Disclosure. All written information heretofore furnished by any Loan Party to the Administrative Agent or any Lender for purposes of or in connection with the Loan Documents or any transaction contemplated hereby is, and all such information hereafter furnished by any Loan Party to the Administrative Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is stated or certified, in each case in light of the circumstances in which the same were made. Any projections or pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by the applicable Loan Party to be reasonable at the time they were made, it being recognized that such projections are not to be viewed as facts and that actual results may differ and such differences may be material.

Section 4.12. Solvency. On the Closing Date, immediately after giving effect to the transactions contemplated herein (including without limitation or the application of the proceeds of any Loans made on the Closing Date) (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise, (b) the present fair saleable value of the properties of each Loan Party will exceed the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured, (c) each Loan Party will be able to pay its debts and other liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured, and (d) no Loan Party will have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and proposed to be conducted after the Closing Date.

ARTICLE 5
COVENANTS

The Company agrees that, so long as any Lender has any Revolver Commitment hereunder or any Loan or any other amount payable under any Loan Document remains unpaid:

Section 5.01. Information. The Company will deliver to the Administrative Agent for distribution to each of the Lenders:

(a) (i) as soon as available and in any event within 90 days after the end of each fiscal year of the Company, a consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on in a manner acceptable to the Securities and Exchange Commission by KPMG LLP or other independent public accountants of nationally recognized standing, (ii) as soon as available and in any event within 90 days after the end of each fiscal year of Corp., a consolidated balance sheet of Corp. and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on in a manner acceptable to the Securities and Exchange Commission by KPMG LLP or other independent public accountants of nationally recognized standing, and (iii) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower , an unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all certified (subject to the absence of footnotes) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer, the chief accounting officer treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of the Company;

(b) (i) as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Company, a consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the

portion of the Company's fiscal year ended at the end of such quarter, setting forth in the case of such statements of income and cash flows in comparative form the figures for the corresponding quarter and the corresponding portion of the Company's previous fiscal year, all certified (subject to changes resulting from audit, year−end adjustments and absence of footnotes) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer, chief accounting officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of the Company, (ii) as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of Corp., a consolidated balance sheet of Corp. and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the portion of Corp.'s fiscal year ended at the end of such quarter, setting forth in the case of such statements of income and cash flows in comparative form the figures for the corresponding quarter and the corresponding portion of Corp.'s previous fiscal year, all certified (subject to changes resulting from audit, year−end adjustments and absence of footnotes) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer, the chief accounting officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of Corp., and (iii) as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Borrower, an unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income for such quarter and for the portion of the Borrower's fiscal year ended at the end of such quarter, setting forth in the case of such statements of income in comparative form the figures for the corresponding quarter and the corresponding portion of the Borrower's previous fiscal year, all certified (subject to changes resulting from audit, year−end adjustments and absence of footnotes) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer, the chief accounting officer treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of the Company;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) or the chief accounting officer of the Company, (i) (x) in the case of financial statements of the Company, setting forth in reasonable detail the calculations required to establish whether the Company was in compliance with the requirements of Sections 5.06(a) (or, if no Loans or L/C Obligations were outstanding, setting forth in reasonable detail the calculation of the Company Consolidated Leverage Ratio), 5.07, 5.10, 5.12, and 5.13on the date of such financial statements and (y) in the case of financial statements of Corp., setting forth in reasonable detail the calculations required to establish whether Corp. was in compliance with the requirements of Section 5.06(b) (or, if no Loans or L/C Obligations were outstanding, setting forth in reasonable detail the calculation of the ratio described in Section 5.06(b)) on the date of such financial statements, and (ii) stating whether any Default exists on the date of such financial statements and, if any such Default exists, setting forth the details thereof and the action which the Company, Corp. or QSC, as applicable, is taking or proposes to take with respect thereto;

(d) within five Domestic Business Days after any officer of the Company or the Borrower obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer, the chief accounting officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of the Company or the Borrower setting forth the details thereof and the action which the Company or the Borrower is taking or proposes to take with respect thereto;

(e) promptly upon the mailing thereof to the shareholders of the Company generally, copies of all financial statements, reports and proxy statements so mailed;

(f) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S−8 or its equivalent) and reports on Forms 10−K, 10−Q and 8−K (or their equivalents)which the Company shall have filed with the Securities and Exchange Commission;

(g) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC, (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice, (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice, (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application, (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC, (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice, or (vii) fails to make any payment or contribution to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement, in either case which has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer, chief accounting officer, treasurer or assistant treasurer (or any such officer's designee, designated in writing by such officer) of the Company setting forth details as to such occurrence and action, if any, which the Company or applicable member of the ERISA Group is required or proposes to take; and

(h) from time to time such additional information regarding the financial position or business of the Company and its Subsidiaries and the Borrower and its Subsidiaries as the Administrative Agent, at the request of any Lender, may reasonably request.

Information required to be delivered pursuant to clauses 5.01(a), (b), (e), or (f) above shall be deemed to have been delivered on the date on which the Company provides notice to the Lenders that such information has been posted on the Company's website on the Internet at the website address listed on the signature pages hereof, at sec.gov/edaux/searches.htm or at another website

identified in such notice and accessible by the Lenders without charge; *provided* that (i) such notice may be included in a certificate delivered pursuant to clause 5.01(c) and (ii) the Company shall deliver paper copies of the information referred to in clauses 5.01(a), (b), (e), or (f) to any Lender which requests such delivery.

Section 5.02. Maintenance of Property; Insurance.

(a) The Company will keep, and will cause each other Loan Party and each Significant Subsidiary to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear and casualty damage excepted.

(b) The Company will maintain, and will cause each other Loan Party and each Significant Subsidiary to maintain (either in the name of the Borrower or in such Loan Party's or Significant Subsidiary's own name), with financially sound and responsible insurance companies, insurance on all their respective properties in at least such amounts and against at least such risks (and with such risk retention) as are usually insured against in the same general area by companies of established repute engaged in the same or a similar business; and will furnish to the Lenders, upon request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried; *provided* that, in lieu of any such insurance, the Company and any other Loan Party and any Significant Subsidiary may maintain a system or systems of self−insurance and reinsurance which will accord with sound practices of similarly situated corporations maintaining such systems and with respect to which the Company or such other Loan Party or such Significant Subsidiary will maintain adequate insurance reserves, all in accordance with generally accepted accounting principles and in accordance with sound insurance principles and practice.

Section 5.03. Maintenance of Existence. The Company will, and will cause each other Loan Party and each Significant Subsidiary to, preserve, renew and keep in full force and effect their respective corporate existence and their respective material rights, privileges, franchises and licenses necessary or desirable in the normal conduct of business.

Section 5.04. Compliance with Laws. The Company will comply, and will cause each other Loan Party and each Significant Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder), except where the necessity of compliance therewith is contested in good faith by appropriate proceedings and for which adequate reserves in conformity with generally accepted accounting principles have been established.

Section 5.05. Inspection of Property, Books and Records. The Company will keep, and will cause each other Loan Party and each Significant Subsidiary to keep, proper books of record and account in accordance with generally accepted accounting principles in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each other Loan Party and each Significant Subsidiary to permit, representatives of any Lender at such Lender's expense to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective

officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

Section 5.06. Financial Covenants.

(a) Company Consolidated Leverage Ratio. The Company Consolidated Leverage Ratio as of the last day of each fiscal quarter when Loans or L/C Obligations are outstanding shall not be greater than 6.0:1.

(b) Corp. Consolidated Leverage Ratio. The ratio of Debt of Corp. and its Consolidated Subsidiaries, determined on a consolidated basis as of the last day of each fiscal quarter of Corp. when Loans or L/C Obligations are outstanding, to Consolidated Corp. EBITDA, determined for the four consecutive fiscal quarters ending on such date, shall not be greater than 2.5:1.

Section 5.07. Negative Pledge. Neither the Company nor QSC will, and the Company will not permit any Subsidiary to, create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

(a) Liens existing on the Closing Date and listed in Schedule 5.07;

(b) any Lien existing on any asset of any Person at the time such Person becomes a Subsidiary and not created in contemplation of such event;

(c) any Lien on any asset of the Company or any of its Subsidiaries (other than QSC) (each, a "*Purchase Money Obligor*") securing Permitted Purchase Money Debt incurred by such Purchase Money Obligor in connection with the purchase of such asset (but not any other Purchase Money Obligor) and permitted under Section 5.12(f); *provided* that such Lien attaches to such asset concurrently with or within 180 days after the incurrence of such Permitted Purchase Money Debt;

(d) any Lien on any asset of any Person existing at the time such Person is merged or consolidated with or into the Company or a Subsidiary (to the extent any such merger or consolidation is permitted under Section 5.08(a)) and not created in contemplation of such event;

(e) any Lien existing on any asset prior to the acquisition thereof by the Company or a Subsidiary (to the extent such acquisition is permitted under this Agreement) and not created in contemplation of such acquisition;

(f) any Lien on assets or capital stock of Minor Subsidiaries which secures Debt of Persons which are not Consolidated Subsidiaries in which the Company or any of its Subsidiaries has made investments ("*Joint Ventures*"), but for the payment of which Debt no other recourse may be had to the Company or any Subsidiaries ("*Limited Recourse Debt*"), or any Lien on equity interests in a Joint Venture securing Limited Recourse Debt of such Joint Venture;

(g) any Lien (other than Liens on the Collateral) arising out of the refinancing, replacement, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section; *provided* that such Debt is not increased and is not secured by any additional assets and the refinancing, replacement, extension, renewal or refunding of any such Debt is permitted pursuant to Section 5.12;

(h) (x) Liens arising in the ordinary course of business which (i) do not secure Debt, (ii) do not secure any obligation in an amount exceeding $100,000,000 and (iii) do not in the aggregate materially detract from the value of the grantor's assets or materially impair the use thereof in the operation of its business, and (y) Liens not described in clause (x) on cash and cash equivalents and securities (other than the Collateral) which Liens secure any obligation with respect to letters of credit or surety bonds, which obligation in each case does not exceed $100,000,000;

(i) (i) Liens ("*Facility Liens*") on the Collateral pursuant to the Collateral Documents securing the Obligations, (ii) junior Liens on the Collateral securing the Existing Notes so long as the Liens described in this clause (ii) shall be junior and subordinated to the Facility Liens, as provided in the 2002 Security and Pledge Agreement (or on other terms and conditions reasonably approved by the Administrative Agent), (iii) Liens on (x) the Collateral securing Permitted QSC Junior Lien Debt, so long as such Liens are junior and subordinated to the Facility Liens (A) as provided in the 2002 Security and Pledge Agreement, with respect to any obligation designated as "Additional Pari Passu Secured Obligations" under (and as defined in) the 2002 Security and Pledge Agreement, (B) as provided in the 2004 Security and Pledge Agreement or (C) on other terms and conditions satisfactory to the Administrative Agent), (iv) Liens securing obligations in respect of (y) Pari Term Loans and (z) up to $150,000,000 face amount of letters of credit which are secured equally and ratably with the Facility Liens pursuant to the Security and Pledge Agreement (or other documentation satisfactory to the Administrative Agent), and (v) Liens on the Collateral securing Revolver Cash Management Obligations or Hedging Obligations (each as defined in the Security and Pledge Agreement) pursuant to the Security and Pledge Agreement (in each case, it being understood that monetary obligations under or related to any such Debt (but not constituting Debt) may be secured by Liens securing such related Debt pursuant to this subsection (i));

(j) Liens on any assets of any Subsidiary of the Company other than QSC or a Corp. Company;

(k) Liens (other than Liens on any Collateral) not otherwise permitted by and in addition to the foregoing clauses of this Section 5.07 securing Debt permitted under Section 5.12; and

(l) Liens on the Equity Interests and assets of any Securitization Subsidiary securing such Securitization Subsidiary's obligations in respect of any Permitted Receivables Financing.

Notwithstanding the foregoing provisions of this Section 5.07, the Borrower shall not be required to comply with the foregoing provisions of this Section 5.07 at any time when there are

no Loans or L/C Obligations outstanding (it being understood that the Borrower shall be required to be in compliance with this Section 5.07 on a pro forma basis for each Credit Extension).

Section 5.08. Consolidations, Mergers and Sales of Assets.

(a) No Loan Party or any of its Subsidiaries will merge or consolidate with or into any other Person; *provided* that (i) any Corp. Company may merge with or into any other Corp. Company, (ii) any Foreign Subsidiary may merge or consolidate with or into any other Foreign Subsidiary, and (iii) any Subsidiary (other than QSC or a Corp. Company) may merge into any other Subsidiary of the Company other than QSC or a Corp. Company; *provided* that, in the case of clause (i) and (ii), after giving effect to any such merger, no Default has occurred and is continuing.

(b) The Company will not sell, lease or otherwise transfer, directly or indirectly, all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole, to any other Person; *provided* that nothing in this subsection (b) shall be construed to prohibit the contribution to any single New Holding Company by the Company of the capital stock of QSC or any other direct Subsidiary of the Company. No Corp. Company will sell, lease or otherwise transfer, directly or indirectly, any of its assets to the Company or any of its Subsidiaries, other than to another Corp. Company.

(c) No Corp. Company shall consummate any Asset Sale if the aggregate fair market value of the assets disposed of in such disposition, together with the aggregate fair market value of all other assets disposed of in Asset Sales following the Closing Date would exceed 20% of Corp.'s consolidated tangible assets as of June 30, 2005, unless the Net Proceeds for any such Asset Sale in excess of such 20% threshold are (i) applied to permanently retire Debt owing by Corp. or to acquire within 365 days of such Asset Sale assets similar to the assets disposed of in such sale or other productive assets of the general type used in the business of a Corp. Company, (ii) held by Corp. in cash or Permitted Investments, or (iii) applied ratably (based on the percentage of such obligations to the sum of Total Exposure plus outstanding Pari Term Loans at such time), to permanently reduce the Revolver Commitments and repay the Term Loans and the Pari Term Loans, and make any other payments of Debt that may be required concurrently with such reduction and repayment.

(d) Notwithstanding clauses (b) and (c) above, the Company will retain ownership, directly or indirectly, of 100% of the capital stock and the voting power of QSC and QSC will retain ownership, directly, of 100% of the capital stock and the voting power of Corp.

Section 5.09. Use of Proceeds. The proceeds of the Revolver Loans made under this Agreement shall be used by the Borrower for general corporate purposes. None of the proceeds of the Revolver Loans shall be used for the purpose of paying Legal Matter Costs. None of the proceeds of any Loans shall be used, directly or indirectly, in violation of any applicable law or regulation, and no use of such proceeds will include any use for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock.

Section 5.10. Restricted Payments.

Neither the Company nor any of its Subsidiaries will declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that (i) any Subsidiary may declare and pay dividends with respect to its Equity Interests, (ii) the Company may make Restricted Payments pursuant to and in accordance with stock or other benefit plans for management or employees of the Company and its Subsidiaries, (iii) the Company may declare and pay stock dividends on its capital stock so long as the stock dividends (which may include options or warrants) are of the same class of capital stock, and (iv) the Company may make other Restricted Payments, so long as, in the case of this clause (iv), after giving effect to any such dividend on any date, the aggregate amount of Permitted Payments declared or paid by Company does not exceed the Payments Basket; *provided* that, in the case of clause (iv), immediately before and after giving effect to any such dividend, no Default has occurred and is continuing.

Section 5.11. Limitations on Restrictions Affecting Subsidiaries. Neither the Company nor any of its Subsidiaries will enter into, or suffer to exist, any agreement with any Person (other than (A) a written agreement with, or an agreement resulting from the application of a law, policy, rule or regulation by, a public utility commission or other governmental authority or (B) as required in accordance with customary practice in connection with a Permitted Receivables Financing) which prohibits or limits the ability of any Subsidiary to (i) pay dividends or make other distributions or pay any Debt owed to the Company or any other Subsidiary, (ii) make loans or advances to the Company or any other Subsidiary, (iii) transfer any of its properties or assets to the Company or any other Subsidiary, (iv) create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, or on capital stock or equity interests issued by it, or (v) create, incur assume or suffer to exist any Debt; *provided* that the following shall be permitted: (1) agreements governing Debt as in effect on the Closing Date, and agreements which are no more restrictive in any material respect (or, in the case of any restriction on the incurrence of Debt or Liens, in any respect) than such agreements, (2) agreements granting Liens permitted under Section 5.07 containing restrictions on the ability to transfer or grant Liens on the assets subject to such Liens, (3) restrictions contained in agreements of any Person at the time such Person becomes a Subsidiary, which restrictions are applicable solely to such Person (including to Equity Interests in such Person), (4) customary restrictions contained in stock purchase agreements, asset sale agreements limiting the transfer of assets pending the closing of the sale and customary non−assignment provisions in leases and other contracts entered into in the ordinary course of business, and (5) restrictions contained in the Loan Documents.

Section 5.12. Limitations on Debt. Neither the Company nor any Subsidiary will create, incur, assume or permit to exist any Debt, except:

(a) Debt created under the Loan Documents and Debt in respect of the Pari Term Loans;

(b) Existing Debt;

(c) Debt of the Company or any of its Subsidiaries which is not secured by a Lien on any Collateral so long as immediately after giving effect to the incurrence of such Debt and any substantially concurrent transactions, (i) no Default has occurred and is continuing and (ii) the Company and Corp. would be in pro forma compliance with each of the covenants set forth in Section 5.06 as of the last day of the most recently ended fiscal quarter of the Company and Corp. for which financial statements are available;

(d) Debt of Company or any of its Subsidiaries owed to Company or any of its Subsidiaries ; *provided* that, in the case of any such Debt owed to QSC if such Debt is evidenced by an Instrument, the Instrument shall have been delivered to the Collateral Agent in accordance with the Security and Pledge Agreement,;

(e) Debt of Company and its Subsidiaries secured by Liens on the Collateral, so long as either (A) (i) the Liens on the Collateral securing such Debt shall be junior and subordinated to the Facility Liens as provided in the 2004 Security and Pledge Agreement (or on other terms and conditions reasonably approved by the Administrative Agent), (ii) the aggregate principal and face amount of the Debt outstanding in reliance on this subsection (e), together with all Existing Debt that is secured by a Lien on the Collateral that is junior and subordinated to the Facility Liens, at any time shall not exceed the sum of (x) an amount equal to the amount of Existing Debt on the Closing Date that is secured by a Lien on the Collateral that is junior and subordinated to the Facility Liens plus (y) $5,000,000,000 (Debt outstanding in reliance on this Section 5.12(e)(A) being referred to as "*Permitted QSC Junior Lien Debt*") (it being understood that if and when any such junior liens initially securing any such Permitted QSC Junior Lien Debt are released, the subordination provisions relating to such debt may terminate) and (iii) immediately after giving effect to the incurrence of any Permitted QSC Junior Lien Debt, the Company and Corp. would be pro forma compliance with each of the covenants set forth in Section 5.06 as of the last day of the most recently ended fiscal quarter of the Company and Corp. for which financial statements are available) or (B) such Liens secure obligations in respect of (y) Pari Term Loans and (z) letters of credit with an aggregate face amount not to exceed $150,000,000 and are created pursuant to the Security and Pledge Agreement (or other documentation satisfactory to the Administrative Agent);

(f) Purchase Money Debt secured by a Lien on the property acquired, constructed or improved of (i) the Company or any other Subsidiary of the Company (other than QSC and Corp. and its Subsidiaries) in an aggregate principal amount not in excess of $250,000,000 and (ii) Corp. and its Subsidiaries in an unlimited amount provided that after giving effect to the incurrence of any such Purchase Money Debt, the Company and Corp. would be in pro forma compliance with each of the covenants set forth in Section 5.06 as of the last day of the most recently ended fiscal quarter of the Company and Corp. for which financial statements are available (Debt outstanding in reliance on this Section 5.12(f) being referred to as "*Permitted Purchase Money Debt*"); and

(g) Debt of a Securitization Subsidiary in respect of Permitted Receivables Financing.

Notwithstanding the provisions set forth above, this Section 5.12 shall not apply at any time when there are no Loans or L/C Obligations outstanding (it being understood that the Borrower shall be required to be in compliance with this Section 5.12 on a pro forma basis for each Credit Extension).

Section 5.13. Limitations on Investments; Loans, Advances, Guarantees and Acquisitions. Neither the Company nor any Subsidiary will purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary before such merger) any Equity Interest in or evidence of indebtedness or other security (including any option, warrant or other right to acquire any of the foregoing) of, make, hold or permit to exist any loan or advance to, Guarantee any obligation of, or make, hold or permit to exist any investment or other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit (any such transaction or event, an "*investment*"), except:

(a) Permitted Investments;

(b) investments existing on the Closing Date and listed in Schedule 5.13;

(c) investments by the Company and its Subsidiaries in Equity Interests in their respective Subsidiaries; *provided* that any such Equity Interest of Corp. shall be pledged pursuant to the Security and Pledge Agreement to the extent required thereunder;

(d) investments constituting Debt permitted by Section 5.12;

(e) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(f) (i) interest rate swap agreements, interest rate cap agreements, interest rate collar agreements or other similar agreements or arrangements, (ii) foreign exchange contracts, currency swap agreements, futures contracts, option contracts, synthetic caps or other similar agreements or arrangements, in each case designed to hedge against fluctuations in interest rates or currency values, respectively or (iii) collars, caps, spreads and other similar agreements or arrangements, in each case designed to hedge against the total cost and consideration for the conversion of equity linked Debt;
(g) investments received as consideration for an Asset Sale as permitted by Section 5.08;

(h) (x) investments constituting Guarantees by the Company or any of its Subsidiaries of performance obligations of the Company or any of its Subsidiaries;

(i) acquisition by Corp. of in−region wirelines as part of its capital expenditures program;

(j) investments in assets of any Person constituting a business unit or in Persons, *provided* that (i) immediately after giving effect to any such investment, no Default shall have occurred and is continuing and the Company and Corp. would have been in pro forma compliance with each of the covenants set forth in Section 5.06 as of the last day of the most recently ended fiscal quarter for which financial statements are available and (ii) the aggregate amount of investments made (net of any cash or asset return) in Joint Ventures and Persons which, as a result thereof, do not become wholly−owned Subsidiaries in reliance on this subsection (j) shall not exceed $4,000,000,000;

(k) any investment (or portion thereof) made with Equity Interests of the Company not constituting Mandatorily Redeemable Equity;
(l) investments contemplated by the definition of "Permitted Receivables Financing"; and

(m) any investments not otherwise permitted by any of the foregoing clauses, *provided* that the aggregate amount of Permitted Payments declared or paid does not exceed the Payments Basket.

Nothing contained in the foregoing is intended to restrict the Company and its Subsidiaries from purchasing any assets other than those expressly prohibited above or from making any capital expenditures.

Section 5.14. Further Assurances Regarding Collateral and Guaranty Requirement. Each Loan Party will execute and deliver any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), that may be required under any applicable law, or that the Administrative Agent or the Required Lenders may reasonably request, to cause the Collateral and Guaranty Requirement to be and remain satisfied, all at the Borrower's expense. The Company and the Borrower will provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by the Collateral Documents.

Section 5.15. Borrower a Holding Company. The Borrower shall not engage in any business activities other than those engaged in or substantially similar to those engaged in as of the Closing Date as an intermediate holding company of Subsidiaries, including, without limitation, treasury, accounting, financing, investment, cash management and overhead management for it and its Consolidated Subsidiaries, and activities reasonably related thereto or necessary or desirable to perform the obligations and agreements of the Borrower under the Loan Documents.

ARTICLE 6
DEFAULTS

Section 6.01. Events of Default. If one or more of the following events (each an "*Event of Default*") shall have occurred and be continuing:

(a) any principal of any Loan shall not be paid when due, or any interest, any fees or any other amount payable hereunder shall not be paid within five days of the due date thereof;

(b) any Loan Party shall fail to observe or perform any covenant contained in Section 5.01(d) or Sections 5.06 to 5.13, inclusive;

(c) any Loan Party shall fail to observe or perform any covenant or agreement contained in any Loan Document (other than those covered by clause (a) or (b) above) for 30 days after the earlier of a senior officer's knowledge of such failure or written notice thereof has been given to the Company by the Administrative Agent at the request of any Lender;

(d) any representation, warranty, certification or statement made by any Loan Party in any Loan Document or in any certificate, financial statement or other document delivered pursuant thereto shall prove to have been incorrect in any material respect when made (or deemed made);

(e) the Company or any Subsidiary shall fail to make any payment or payments, in the aggregate in excess of $100,000,000, in respect of any Material Debt when due or within any applicable grace period;

(f) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt;

(g) the Company or any Loan Party or any Significant Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize or otherwise acquiesce in any of the foregoing;

(h) an involuntary case or other proceeding shall be commenced against the Company or any Loan Party or any Significant Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its

property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company or any Loan Party or any Significant Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(i) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $100,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition specified in Section 4042(a) of ERISA shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of $100,000,000;

(j) a judgment or order for the payment of money in excess of $100,000,000 (net of amounts covered by insurance or bonded) shall be rendered against the Company or any Subsidiary and such judgment or order shall be enforceable and shall continue unsatisfied, in effect and unstayed for a period of 60 days (or such longer period of time after which the judgment holder may cause the creation of Liens against or seizure of any property of the Company or such Subsidiary) (it being understood that in any event an administrative order of a public utility commission shall not constitute an "order" for purposes of this clause (j) so long as (x) no one is seeking to enforce such order in an action, suit or proceeding before a court and (y) reserves in the full amount of the cost of such order are maintained on the books of the Company and its Subsidiaries);

(k) the Guarantor shall repudiate in writing any of its obligations under Article 9 or any such obligation shall be unenforceable against the Guarantor in accordance with its terms, or the Company or any of its Subsidiaries shall so assert in writing; or

(l) any Lien purported to be created under any Collateral Document shall cease to be, or shall be asserted by the Company or any of its Subsidiaries not to be, a valid and perfected Lien on any Collateral, with the priority required by the applicable Collateral Document, except (i) as a result of a sale or other disposition of the applicable Collateral in a transaction permitted under the Loan Documents, (ii) as a result of the Administrative Agent's failure to maintain possession of any stock certificates, promissory notes or other documents delivered to it under the Security and Pledge Agreement or (iii) as a result of the operation of Section 2(k) of the Security and Pledge Agreement, so long as the Borrower shall have complied with its obligations thereunder;

then, and in every such event, the Administrative Agent shall (i) if requested by the Required Revolver Lenders, by notice to the Company terminate the Revolver Commitments and the obligation of the Issuing Lender to make L/C Credit Extensions, and the Revolver Commitments and

the obligation of the Issuing Lender to make L/C Credit Extensions shall thereupon terminate, and/or (ii) if requested by the Required Lenders, by notice to the Company declare the Loans (together with accrued interest thereon) to be, and the Loans shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company and the Borrower and/or (iii) if requested by the Required Revolver Lenders, by notice to the Company require the Company to Cash Collateralize the Outstanding Amount of L/C Obligations; *provided* that in the case of any of the Events of Default specified in clause (g) or (h) above with respect to the Company or the Borrower, without any notice to the Company or the Borrower or any other act by the Administrative Agent or the Lenders, the Revolver Commitments and the obligation of the Issuing Lender to make L/C Credit Extensions shall thereupon automatically terminate and the Loans (together with accrued interest thereon) shall become immediately due and payable and the Company shall be obligated to Cash Collateralize the Outstanding Amount of L/C Obligations without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company and the Borrower.

Section 6.02. Notice of Default. The Administrative Agent shall give notice to the Company under Section 6.01(c) promptly upon being requested to do so by any Lender and shall thereupon notify all the Lenders thereof.

ARTICLE 7
THE ADMINISTRATIVE AGENT

Section 7.01. Appointment and Authorization. Each Lender irrevocably appoints and authorizes the Administrative Agent to take such action (including without limitation entering into the Security and Pledge Agreement) as administrative agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with all such powers as are reasonably incidental thereto.

Section 7.02. Administrative Agent and Affiliates. Wachovia Bank, National Association, and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with each of the Company, the Borrower or any Subsidiary or Affiliate of the Company or the Borrower (each, a "*Qwest Entity*") as though Wachovia Bank, National Association, were not the Administrative Agent hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Wachovia Bank, National Association, or its Affiliates may receive information regarding any Qwest Entity (including information that may be subject to confidentiality obligations in favor of such Qwest Entity) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, Wachovia Bank, National Association, shall have the same rights and powers under this Agreement as any other Lender and may exercise such rights and powers as though it were not the Administrative Agent, and the terms "Lender" and "Lenders" include Wachovia Bank, National Association in its individual capacity.

Section 7.03. Action by Administrative Agent. The obligations of the Administrative Agent under the Loan Documents are only those expressly set forth therein. Without limiting the

generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in the Loan Documents. The Administrative Agent shall not have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in any Loan Document with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

Section 7.04. Consultation with Experts. The Administrative Agent may consult with legal counsel (who may be counsel for the Company or the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 7.05. Delegation of Duties. The Administrative Agent may execute any of its duties under the Loan Documents by or through agents, employees or attorneys−in−fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney−in−fact that it selects in the absence of gross negligence or willful misconduct.

Section 7.06. Liability of Administrative Agent. Neither the Administrative Agent nor any Administrative Agent−Related Person shall be liable for any action taken or not taken by it in connection with any Loan Document (i) with the consent or at the request of the Required Lenders or (ii) in the absence of its own gross negligence, bad faith or willful misconduct. Neither the Administrative Agent nor any Administrative Agent−Related Person shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of any Loan Party; (iii) the satisfaction of any condition specified in Article 3, except receipt of items required to be delivered to the Administrative Agent; (iv) the existence or sufficiency of the Collateral; or (v) the validity, effectiveness or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. None of the Administrative Agent, its Affiliates and their respective directors, officers, agents and employees shall be under any obligation to any Lender or participant to inspect the properties, books or records of any Qwest Entity. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex or similar writing) believed by it to be genuine or to be signed by the proper party or parties.

Section 7.07. Indemnification. Each Lender shall, ratably in accordance with its Revolver Commitment, indemnify the Administrative Agent, its Affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Loan Parties) against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action,

loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct) that such indemnitees may suffer or incur in connection with the Loan Documents or any action taken or omitted by such indemnitees thereunder. No action taken with the consent or at the request of the Required Lenders shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section.

Section 7.08. Credit Decision; Disclosure of Information by Administrative Agent. Each Lender acknowledges that no Administrative Agent−Related Person has made any representation or warranty to it, and that no act by the Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of any Qwest Entity, shall be deemed to constitute any representation or warranty by the Administrative Agent or any other Person to any Lender as to any matter, including whether Administrative Agent−Related Persons have disclosed material information in their possession. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Administrative Agent−Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Qwest Entities, and all applicable bank or other regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit hereunder. Each Lender also represents that it will, independently and without reliance upon any Administrative Agent−Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Qwest Entities. Except for the notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent herein, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Qwest Entities which may come into the possession of any Administrative Agent−Related Person.

Section 7.09. Successor Administrative Agent. The Administrative Agent may resign at any time by giving notice thereof to the Lenders and the Company. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent (with the consent of the Company, such consent not to be unreasonably withheld). If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent (with the consent of the Company, such consent not to be unreasonably withheld), which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $400,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the

provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent. If no successor Administrative Agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall at its election nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided above. The Administrative Agent, if it so elects, may resign as administrative agent but not collateral agent or vice versa, and if it so elects, then the provisions of this Section and the rest of this Article shall apply separately to each of those separate capacities of the Administrative Agent.

Section 7.10. Administrative Agent's Fee. The Company shall pay to the Administrative Agent for its own account fees in the amounts and at the times previously agreed upon between the Company and the Administrative Agent.

ARTICLE 8
CHANGES IN CIRCUMSTANCES

Section 8.01. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period for any Euro−Dollar Loan:

(a) the Administrative Agent determines (which determination will be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted London Interbank Offered Rate for such Interest Period, or

(b) in the case of Euro−Dollar Loans, Lenders having 50% or more of the aggregate amount of the Euro−Dollar Loans advise the Administrative Agent that the Adjusted London Interbank Offered Rate as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Lenders of funding their Euro−Dollar Loans for such Interest Period, the Administrative Agent shall forthwith give notice thereof to the Company and the Lenders, whereupon until the Administrative Agent notifies the Company that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Lenders to make Euro−Dollar Loans or to convert outstanding Loans into Euro−Dollar Loans shall be suspended and (ii) each outstanding Euro−Dollar Loan shall be converted into a Domestic Loan on the last day of the then current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least two Domestic Business Days before the date of any Euro−Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Domestic Borrowing.

Section 8.02. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Euro−Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Lender (or its Euro−Dollar Lending Office) to make, maintain

or fund its Euro−Dollar Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Lenders and the Company, whereupon until such Lender notifies the Company and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Euro−Dollar Loans, or to convert outstanding Loans into Euro−Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Lender shall designate a different Euro−Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise disadvantageous to such Lender. If such notice is given, each Euro−Dollar Loan of such Lender then outstanding shall be converted to a Domestic Loan either (a) on the last day of the then current Interest Period applicable to such Euro−Dollar Loan if such Lender may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 8.03. Increased Cost and Reduced Return.

(a) If on or after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System with respect to any Euro−Dollar Loan any such requirement included in an applicable Euro−Dollar Reserve Percentage), special deposit, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (or its Applicable Lending Office) or shall impose on any Lender (or its Applicable Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro−Dollar Loans, its Note or its obligation to make Euro−Dollar Loans and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office of making or maintaining any Euro−Dollar Loan, or to reduce the amount of any sum received or receivable by such Lender (or its Applicable Lending Office) or the Issuing Lender under this Agreement or under its Loan or any Letter of Credit (or participation therein) with respect thereto, by an amount deemed by such Lender, then, within 15 days after demand by such Lender (with a copy to the Administrative Agent) or the Issuing Lender, the Borrower shall pay to such Lender as the case may be, such additional amount or amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Lender (or its Parent) as a consequence of such Lender’s obligations hereunder to a level below that which such Lender (or its Parent) could

have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, within 15 days after demand by such Lender (with a copy to the Administrative Agent), the Company shall pay to such Lender such additional amount or amounts as will compensate such Lender (or its Parent) for such reduction.

(c) Each Lender will promptly notify the Company and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to such bank. A certificate of any Lender claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

Section 8.04. Taxes.

(a) Any and all payments by any Loan Party to or for the account of any Lender, the Issuing Lender or the Administrative Agent under any Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, *excluding*, (x) in the case of each Lender, the Issuing Lender and the Administrative Agent, taxes imposed on its income or profits, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender, the Issuing Lender or the Administrative Agent (as the case may be) is organized or any political subdivision thereof, (y) in the case of each Lender, taxes imposed on its income or profits, and franchise or similar taxes imposed on it, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof, taxes that are imposed by any jurisdiction by reason of such Lender doing or having done business in such jurisdiction other than solely as a result of the Loan Documents or any transaction contemplated thereby, and (z) in the case of each Lender, the Issuing Lender and the Administrative Agent, any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which such Lender, the Issuing Lender or the Administrative Agent is organized or in which its Applicable Lending Office is located or any political subdivision thereof (all such non−excluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "*Taxes*"). If any Loan Party shall be required by law to deduct any Taxes from or in respect of any sum payable under any Loan Document to any Lender, the Issuing Lender or the Administrative Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.04) such Lender, the Issuing Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Person shall make such deductions, (iii) such Person shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law, and (iv) such Person shall furnish to the Administrative Agent, at its address referred to in Section 10.01, the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, each Loan Party agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, or charges or similar levies which arise from any payment made under any Loan Document or from the execution or delivery of, or otherwise with respect to, any Loan Document (hereinafter referred to as "*Other Taxes*").

(c) Each Loan Party agrees to indemnify each Lender, the Issuing Lender and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 8.04) paid by such Lender, the Issuing Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto; *provided* that the indemnification obligation under this Section 8.04(c) shall be only with respect to Taxes, Other Taxes and liabilities related to payments made by a Loan Party under any Loan Document. This indemnification shall be made within 15 days from the date such Lender, the Issuing Lender or the Administrative Agent (as the case may be) makes written demand therefor.

(d) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Lender listed on the signature pages hereof, on or prior to the date on which it becomes a Lender in the case of each other Lender, on or prior to the date on which any such Lender grants any participating interest pursuant to Section 10.06 or otherwise ceases to act for its own account with respect to any portion of any sums payable to it under this Agreement, and from time to time thereafter if requested in writing by the Company (but only so long as such Lender remains lawfully able to do so), shall provide the Company with Internal Revenue Service form W−8BEN, W−8ECI and/or W−8IMY, as appropriate, or any successor form prescribed by the Internal Revenue Service (together with any form, documentation or information such Lender is required or chooses to transmit with any such forms), certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States and/or certifying as provided on Form W−8IMY. If the form provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from "Taxes" as defined in Section 8.04(a) imposed by the United States.

(e) For any period with respect to which a Lender has failed to provide the Company with the appropriate form pursuant to Section 8.04(d) (unless such failure is due to a change in treaty, law or regulation occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under Section 8.04(c) with respect to Taxes imposed by the United States; *provided*, *however*, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, the Company shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If any Loan Party is required to pay additional amounts to or for the account of any Lender pursuant to this Section 8.04, then such Lender will change the jurisdiction of its Ap−

plicable Lending Office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender, is not otherwise disadvantageous to such Lender.

Section 8.05. Domestic Loans Substituted for Affected Euro−Dollar Loans. If (i) the obligation of any Lender to make Euro−Dollar Loans to the Borrower has been suspended pursuant to Section 8.02 or (ii) any Lender has demanded compensation under Section 8.03 with respect to its Euro−Dollar Loans and the Borrower shall, by at least five Euro−Dollar Business Days' prior notice to such Lender through the Administrative Agent, have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Company that the circumstances giving rise to such suspension or demand for compensation no longer exist:

(a) all Loans which would otherwise be made by such Lender as (or continued as or converted into) Euro−Dollar Loans shall instead be Domestic Loans (on which interest and principal shall be payable contemporaneously with the related Euro−Dollar Loans of the other Lenders), and

(b) after each of its Euro−Dollar Loans has been repaid (or converted to a Domestic Loan), all payments of principal which would otherwise be applied to repay such Euro−Dollar Loans shall be applied to repay its Domestic Loans instead.

If such Lender notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Domestic Loan shall be converted into a Euro−Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro−Dollar Loans of the other Lenders.

Section 8.06. Substitution of Lender. If (i) the obligation of any Lender to make Euro−Dollar Loans has been suspended pursuant to Section 8.02 or (ii) any Lender has demanded compensation under Section 8.03, the Company shall have the right, with the assistance of the Administrative Agent, to seek a mutually satisfactory substitute bank or banks (which may be one or more of the Lenders) to purchase the Loans (by paying to such Lender the principal amount of such Loans, together with accrued interest thereon and any other amounts payable to such Lender hereunder) and assume the Revolver Commitment, Loans and other Obligations of such Lender.

ARTICLE 9
GUARANTY

Section 9.01. The Guaranty. The Guarantor hereby unconditionally guarantees the full and punctual payment (whether at stated maturity, upon acceleration or otherwise) of the Guaranteed Obligations. Upon failure by the Borrower to pay or perform punctually any Guaranteed Obligation, the Guarantor shall forthwith on demand pay or perform such Guaranteed Obligation in the manner specified in the relevant Loan Document.

Section 9.02. Guaranty Unconditional. The obligations of the Guarantor hereunder shall be unconditional, irrevocable and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(i) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of any other Loan Party under any Loan Document, by operation of law or otherwise;

(ii) any modification or amendment of or supplement to any Loan Document;

(iii) any release, impairment, non−perfection or invalidity of any direct or indirect security for any obligation of any other Loan Party under any Loan Document;

(iv) any change in the corporate existence, structure or ownership of any other Loan Party or any insolvency, bankruptcy, reorganization or other similar proceeding affecting any other Loan Party or any of its assets or any resulting release or discharge of any obligation of any other Loan Party contained in any Loan Document;

(v) the existence of any claim, set−off or other rights which the Guarantor may have at any time against any other Loan Party, the Administrative Agent, any Lender or any other Person, whether in connection herewith or any unrelated transactions, *provided* that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(vi) any invalidity or unenforceability relating to or against any other Loan Party for any reason of any Loan Document, or any provision of applicable law or regulation purporting to prohibit the payment by any other Loan Party of the principal of or interest on any Loan or any other amount payable by it under the Loan Document; or

(vii) any other act or omission to act or delay of any kind by any other Loan Party, the Administrative Agent, the Issuing Lender any Lender or any other Person or any other circumstance whatsoever which might, but for the provisions of this paragraph, constitute a legal or equitable discharge of the Guarantor's obligations hereunder.

Section 9.03. Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances. The Guarantor's obligations hereunder shall remain in full force and effect until the Revolver Commitments shall have terminated and the principal of and interest on the Loans and all other amounts payable by the Borrower under the Loan Documents shall have been paid in full and the Outstanding Amount of L/C Obligations shall have been reduced to zero. If at any time any payment of the principal of or interest on any Loan or L/C Obligation or any other amount payable by the Borrower under the Loan Documents is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, the Guarantor's obligations hereunder with respect to such payment shall be reinstated at such time as though such payment had been due but not made at such time.

Section 9.04. Waiver by the Guarantor. The Guarantor irrevocably waives acceptance hereof, presentment, demand, protest and any notice not provided for herein, as well as any

requirement that at any time any action be taken by any Person against any other Loan Party or any other Person.

Section 9.05. Subrogation. The Guarantor irrevocably waives any and all rights to which it may be entitled, by operation of law or otherwise, upon making any payment hereunder to be subrogated to the rights of the payee against the Borrower with respect to such payment or against any direct or indirect security therefor, or otherwise to be reimbursed, indemnified or exonerated by or for the account of the Borrower in respect thereof until (i) the Revolver Commitments shall have terminated, (ii) all Loans and all other obligations under this Agreement and the other Loan Documents have been paid in full in cash and (iii) the Outstanding Amount of L/C Obligations shall have been reduced to zero.

Section 9.06. Stay of Acceleration. In the event that acceleration of the time for payment of any amount payable by the Borrower under the Loan Documents is stayed upon insolvency, bankruptcy or reorganization of the Borrower, all such amounts otherwise subject to acceleration under the terms of this Agreement shall nonetheless be payable by the Guarantor hereunder forthwith on demand by the Administrative Agent made at the request of the Required Lenders.

ARTICLE 10
MISCELLANEOUS

Section 10.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, facsimile transmission or similar writing) and shall be given to such party: (x) in the case of any Loan Party, the Administrative Agent or the Issuing Lender, at its address or facsimile number set forth on the signature pages hereof, (y) in the case of any Lender, at its address or facsimile number set forth in its Administrative Questionnaire or (z) in the case of any party, such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Company. Each such notice, request or other communication shall be effective (i) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, (ii) if given by facsimile transmission, when such facsimile is transmitted to the facsimile number specified pursuant to this Section 10.01 and telephonic confirmation of receipt thereof is received, or (iii) if given by any other means, when delivered at the address specified in this Section; *provided* that notices to the Administrative Agent under Article 2 or Article 8 shall not be effective until received.

Section 10.02. No Waivers. No failure or delay by the Administrative Agent, the Issuing Lender or any Lender in exercising any right, power or privilege under any Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided in the Loan Document shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 10.03. Expenses; Indemnification.

(a) The Borrower shall pay (i) all reasonable out−of−pocket expenses of the Administrative Agent, including reasonable fees and disbursements of special counsel for the Administrative Agent, in connection with the preparation and administration of the Loan Documents, any waiver or consent hereunder or any amendment hereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all out−of−pocket expenses incurred by the Administrative Agent, the Issuing Lender and each Lender, including reasonable fees and disbursements of counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Borrower agrees to indemnify each Administrative Agent−Related Person, the Issuing Lender and each Lender, their respective Affiliates and the respective directors, officers, agents and employees of the foregoing (each, an "*Indemnitee*") and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to or arising out of the Loan Documents or any actual or proposed use of proceeds of Loans hereunder; *provided* that (i) no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence, bad faith or willful misconduct as determined by a court of competent jurisdiction and (ii) the Company shall not be liable for any settlement entered into by an Indemnitee without its consent (which shall not be unreasonably withheld).

(c) Each Indemnitee agrees to give the Company prompt written notice after it receives any notice of the commencement of any action, suit or proceeding for which such Indemnitee may wish to claim indemnification pursuant to subsection (b). The Company shall have the right, exercisable by giving written notice within fifteen Domestic Business Days after the receipt of notice from such Indemnitee of such commencement, to assume, at the Company's expense, the defense of any such action, suit or proceeding; *provided*, that such Indemnitee shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such separate counsel shall be at such Indemnitee's expense unless (1) the Company shall have agreed to pay such fees and expenses; (2) the Company shall have failed to assume the defense of such action, suit or proceeding or shall have failed to employ counsel reasonably satisfactory to such Indemnitee in any such action, suit or proceeding; or (3) such Indemnitee shall have been advised by independent counsel in writing (with a copy to the Company) that there may be one or more defenses available to such Indemnitee which are in conflict with those available to the Company (in which case, if such Indemnitee notifies the Company in writing that it elects to employ separate counsel at the Company's expense, the Company shall be obligated to assume the expense, it being understood, however, that the Company shall not be liable for the fees or expenses of more than one separate firm of attorneys, which firm shall be designated in writing by such Indemnitee).

Section 10.04. Sharing of Set−offs. Each Lender agrees that if it shall, by exercising any right of set−off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal, interest and fees due with respect to any Loan or participation in L/C

Obligations held by it which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal, interest and fees due with respect to any Loan or participation in L/C Obligations held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Loans and participations in Letters of Credit held by the other Lenders, and such other adjustments shall be made, as may be required so that all such payments of principal, interest and fees with respect to the Loans and participations in Letters of Credit held by the Lenders shall be shared by the Lenders pro rata; *provided* that nothing in this Section shall impair the right of any Lender to exercise any right of set−off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness hereunder. The Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in a Loan or L/C Obligation, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set−off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Borrower in the amount of such participation.

Section 10.05. Amendments and Waivers.

(a) Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Company, the Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent are affected thereby, by the Administrative Agent); *provided* that no such amendment or waiver shall, unless signed by each affected Lender, (i) increase the Revolver Commitment of any Lender or subject any Lender to any additional obligation (it being understood that an increase pursuant to Section 8.06 or 10.06 shall not constitute an amendment or waiver for this purpose), (ii) reduce the principal of or rate of interest on any Loan, L/C Borrowing or any Letter of Credit Fees or other fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan, L/C Borrowing or any Letter of Credit Fees or other fees hereunder or for any reduction or termination of any Revolver Commitment and (iv) except as contemplated by Section 10.15, amend or waive the provisions of Article 9; and *provided further* that

(i) no such amendment or waiver shall, unless signed by all the Lenders, change the percentage of the Total Exposure, or the number of Lenders, which shall be required for the Lenders or any of them to take any action under this Section or any other provision of this Agreement;

(ii) no such amendment or waiver shall, unless signed by the Required Revolver Lenders, alter any condition to a Credit Extension under the Revolver Commitments as set forth in Section 3.03 or change the percentage of the Revolver Commitments or Required Revolver Lenders which shall be required for the Lenders or any of them to take any action under this Section or any other provision of this Agreement;

(iii) any waiver, amendment or modification of this Agreement that by its terms expressly modifies the rights or duties under this Agreement of the Lenders of any tranche but not the Lenders of any other tranche may be effected by an agreement or agreements in writing entered into by the Borrower and the requisite percentage in inter−

est of the Lenders of the affected tranche that would be required to consent thereto under this Section if the Lenders of such tranche were the only Lenders hereunder at the time;

(iv) no such amendment or waiver shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document;

(v) no such amendment or waiver shall, unless in writing and signed by each Revolver Lender, extend the expiration date of any Letter of Credit beyond the Revolver Maturity Date; and

(vi) no such amendment or waiver shall, unless consented to by the Issuing Lender in addition to the Lenders required above, affect the rights or duties of the Issuing Lender under this Agreement or any Issuer Document relating to any Letter of Credit issued by it.

For avoidance of doubt, neither the increase of Revolver Commitments pursuant to Section 2.15(a) nor the addition of Term Loans or Pari Term Loans pursuant to Section 2.15(b) shall require the consent or agreement of any Lender other than the financial institutions agreeing to provide such additional Revolver Commitments or Term Loans.

(b) Any provision of any Collateral Document may be amended or waived if, but only if, such amendment or waiver is entered into in accordance with the terms thereof.

(c) If, in connection with any proposed amendment, modification, waiver or termination requiring the consent of any Lender, the consent of the Required Lenders is obtained but the consent of any Lender whose consent is required is not obtained (any such Lender whose consent is not obtained as described in this Section 10.05 being referred to as a "*Non−Consenting Lender*"), then, as long as the Lender acting as the Administrative Agent is not a Non−Consenting Lender at the Company's request, an Eligible Assignee reasonably acceptable to the Administrative Agent that has consented to such amendment, modification, waiver or termination shall have the right (but not the obligation) to purchase from such Non−Consenting Lender, and such Non−Consenting Lender agrees that it shall, upon the Company's request, sell and assign to such Eligible Assignee, all of the Revolver Commitments and Loans of such Non−Consenting Lender for an amount equal to the principal balance of all such Loans held by the Non−Consenting Lender and all accrued and unpaid interest and fees with respect to the Revolver Commitments, Loans and participations in Letters of Credit of such Non−Consenting Lender; *provided*, *however*, that such purchase and sale shall be recorded in the register maintained by the Administrative Agent and not be effective until (x) the Administrative Agent shall have received from such Eligible Assignee an agreement in form and substance reasonably satisfactory to the Administrative Agent and the Company whereby such Eligible Assignee shall agree to be bound by the terms hereof together with the $3,500 assignment fee to the extent such fee is required to be paid by Section 10.06 and (y) such Non−Consenting Lender shall have received payments of all Loans held by it and all accrued and unpaid interest and fees with respect to the Revolver Commitments, Loans and participations in Letters of Credit of such Non−Consenting Lender and all other amounts then due and owing through the date of the sale. Each Lender agrees that, if it becomes a Non−Consenting Lender, it shall promptly execute and deliver to the

Administrative Agent an Assignment and Acceptance to evidence such sale and purchase and shall deliver to the Administrative Agent any Note (if Notes have been issued in respect of the Non−Consenting Lender's Loans) subject to such Assignment and Acceptance; *provided, however,* that the failure of any Non−Consenting Lender to execute an Assignment and Acceptance shall not render such sale and purchase (and the corresponding assignment) invalid and such assignment shall nonetheless be recorded in the register maintained by the Administrative Agent.

Section 10.06. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that (except to the extent otherwise provided in Section 10.15) no Loan Party may assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all Lenders.

(b) Any Lender may at any time grant to one or more banks or other institutions (each a "*Participant*") participating interests in its Revolver Commitment or any or all of its Loans and participations in L/C Obligations. In the event of any such grant by a Lender of a participating interest to a Participant, such Lender shall remain responsible for the performance of its obligations hereunder, and the Loan Parties and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Loan Parties hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; *provided* that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement described in clause (i), (ii), (iii) or (iv) of the first proviso to Section 10.05(a) or clause (v) of the second proviso to Section 10.05(a) without the consent of the Participant. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement and subject to subsection (e) below, be entitled to the benefits of Article 8 with respect to its participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below but which is consented to in accordance with this subsection (b) shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b).

(c) Any Lender may at any time assign to one or more banks or other institutions (each an "*Assignee*") all or any portion of its rights and obligations under this Agreement and any Loans and participations in L/C Obligations, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit E hereto executed by such Assignee and such transferor Lender, with (and subject to) the consent of the Company and the Administrative Agent (and, if a Revolver Commitment is being assigned, the Issuing Lender), which consents shall not be unreasonably withheld or delayed (it being understood that it shall not be unreasonable for the Company to withhold its consent to an assignment of a Revolver Commitment, Revolver Loans or participations in L/C Obligations to a hedge fund); *provided* that (i) if an Assignee is a Lender Affiliate or is another Lender, no such consent shall be required; (ii) any assignment of a Revolver Commitment, Revolver Loan or participations in L/C Obligations shall be in a minimum amount of $5,000,000 (or shall be an as−

signment of all of the assignor's Revolver Commitment, Revolver Loans and participations in L/C Obligations; (iii) any assignment of Term Loans shall be in a minimum amount of $1,000,000 (or shall be an assignment of all of the assignor's Term Loans); and (iv) any consent of the Company otherwise required under this subsection shall not be required if an Event of Default has occurred and is continuing. Upon execution and delivery of such instrument and payment by such Assignee to such transferor Lender of an amount equal to the purchase price agreed between such transferor Lender and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Revolver Commitment as set forth in such instrument of assumption, and the transferor Lender shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor Lender, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor Lender shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of $3,500. If the Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to the Company and the Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 8.04.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Loans and participations in L/C Obligations to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Lender; *provided* that no such pledge or assignment shall release the transferor Lender from its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto. In the case of any Lender that is a fund that invests in bank loans, such Lender may, without the consent of the Borrower or the Administrative Agent, assign or pledge all or any portion of its rights under this Agreement, including the Loans and participations in L/C Obligations and any Note or any other instrument evidencing its rights as a Lender under this Agreement, to any holder of, trustee for, or any other representative of holders of, obligations owed or securities issued, by such fund, as security for such obligations or securities; *provided* that any foreclosure or similar action by such trustee or representative shall be subject to the provisions of this Section 10.06(d) concerning assignments.

(e) No Assignee, Participant or other transferee of any Lender's rights shall be entitled to receive any greater payment under Section 8.03 or 8.04 than such Lender would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Company's prior written consent or by reason of the provisions of Section 8.02, 8.03 or 8.04 requiring such Lender to designate a different Applicable Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

(f) Notwithstanding anything to the contrary contained herein, any Lender (a "*Granting Lender*") may grant to a special purpose funding vehicle (an "*SPC*") of such Granting Lender, identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Company, the option to provide all or any part of any Loan that such Granting Lender would otherwise be obligated to make hereunder, *provided* that (i) nothing herein shall constitute a commitment to make any Loan by any SPC and (ii) if an SPC elects not to exercise

such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Revolver Commitment of the Granting Lender to the same extent, and as if, such Loan were made by the Granting Lender. Each party hereto agrees that no SPC shall be liable for any payment under this Agreement for which a Lender would otherwise be liable, for so long as, and to the extent, the related Granting Lender makes such payment. In furtherance of the foregoing, each party hereto hereby agrees that, prior to the date that is one year and one day after the payment in full of all outstanding senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or similar proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 10.06, any SPC may (i) with notice to, but without the prior written consent of, the Company or the Administrative Agent and without paying any processing fee therefor, assign all or portion of its interests in any Loans to its Granting Lender or to any financial institutions (if consented to by the Company and the Administrative Agent) providing liquidity and/or credit facilities to or for the account of such SPC to fund the Loans made by such SPC or to support the securities (if any) issued by such SPC to fund such Loans and (ii) disclose on a confidential basis any non−public information relating to its Loans to any rating agency, commercial paper dealer or provider of a surety, guarantee or credit or liquidity enhancement to such SPC.

(g) Notwithstanding anything to the contrary contained herein, if at any time Wachovia Bank, National Association assigns all of its Revolver Commitment and Loans pursuant to subsection (c) above, Wachovia Bank, National Association may, upon 30 days' notice to the Borrower and the Lenders, resign as Issuing Lender. In the event of any such resignation as Issuing Lender, the Borrower shall be entitled to appoint from among the Lenders, subject to acceptance of such appointment by such Lender, a successor Issuing Lender hereunder; *provided*, *however*, that no failure by the Borrower to appoint any such successor shall affect the resignation of Wachovia Bank, National Association as Issuing Lender. If Wachovia Bank, National Association resigns as Issuing Lender, it shall retain all the rights, powers, privileges and duties of the Issuing Lender hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as Issuing Lender and all L/C Obligations with respect thereto (including the right to require the Lenders to make Domestic Revolver Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 2.16(c)). Upon the appointment of a successor Issuing Lender and acceptance of such appointment by such Lender, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Issuing Lender, and (b) the successor Issuing Lender shall issue Letters of Credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Wachovia Bank, National Association to effectively assume the obligations of Wachovia Bank, National Association with respect to such Letters of Credit.

Section 10.07. Governing Law; Submission to Jurisdiction. This Agreement and each Note shall be governed by and construed in accordance with the laws of the State of New York. Each Loan Party party hereto hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to the Loan

Documents or the transactions contemplated thereby, and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 10.08. Counterparts; Integration. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

Section 10.09. WAIVER OF JURY TRIAL. EACH OF THE LOAN PARTIES PARTY HERETO, THE ADMINISTRATIVE AGENT, THE ISSUING LENDER AND THE LENDERS HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY.

Section 10.10. Confidentiality. Each of the Administrative Agent, the Issuing Lender and the Lenders agrees to use its reasonable best efforts to keep confidential any information delivered or made available by or on behalf of the Loan Parties to it (including without limitation any information obtained through any financial advisor); *provided* that nothing herein shall prevent the Administrative Agent, the Issuing Lender or any Lender from disclosing such information (i) to the Administrative Agent, the Issuing Lender or any other Lender in connection with the transactions contemplated hereby, (ii) to its officers, directors, employees, agents, attorneys and accountants who have a need to know such information in accordance with customary banking practices and who receive such information having been made aware of the restrictions set forth in this Section, (iii) upon the order of any court or administrative agency, (iv) upon the request or demand of any regulatory agency or authority having jurisdiction over such party, (v) which has been publicly disclosed (by a Person other than such Administrative Agent, the Issuing Lender or Lender), (vi) which has been obtained from any Person other than the Company and its Subsidiaries, *provided* that such Person is not (x) known to it to be bound by a confidentiality agreement with the Company or its Subsidiaries or any other obligation not to disclose or (y) known to it to be otherwise prohibited from transmitting the information to it by a contractual, legal or fiduciary obligation, (vii) in connection with the exercise of any remedy under the Loan Documents, or (viii) to any actual or proposed participant or assignee of all or any of its rights hereunder, or to any actual or proposed counterparty to any swap, hedge or similar account relating to the Loans which, in each case, has agreed in writing to be bound by the provisions of this Section. No party to this Agreement intends to treat the Loans and related transactions as being a "reportable transaction" (within the meaning of Treasury Regulation section 1.6011−4).

Section 10.11. No Reliance on Margin Stock. Each Lender represents to the Administrative Agent and each of the other Lenders that it in good faith is not relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Agreement.

Section 10.12. Joint Lead Arrangers, Joint Bookrunners, Syndication Agent and Co−Documentation Agents. No Person identified on the cover page of this Agreement as a co−lead

arranger, joint bookrunner, syndication agent or co−documentation agent shall have any right, power, obligation, liability, responsibility or duty under the Loan Documents in such capacity.

Section 10.13. Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent, the Issuing Lender or any Lender, or the Administrative Agent, the Issuing Lender or any Lender exercises its right of set−off, and such payment or the proceeds of such set−off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent, the Issuing Lender or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any bankruptcy, insolvency or other similar law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set−off had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect.

Section 10.14. USA Patriot Act Notice. Each Lender and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Company and the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107−56 (signed into law October 26, 2001)) (the "*Act*"), it is required to obtain, verify and record information that identifies the Loan Parties, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify such Loan Party in accordance with the Act.

Section 10.15. Substitution of the Company as the Borrower. In the event that either (a) S&P and Moody's have confirmed to the satisfaction of the Administrative Agent that, after giving effect to a substitution of the Company for QSC as the Borrower and the release of QSC as the Borrower under this Agreement, the Debt Ratings will be both BBB−(stable) or greater by S&P and Baa3(stable) or greater by Moody's, or (b) each of the following conditions are met:

(i) QSC shall have no Debt outstanding other than (w) the Obligations, (x) guarantees of Debt of the Company that are subordinated to the Obligations (and which may be secured by Liens on the Collateral ranking junior to the Liens securing the Obligations), (y) unsecured guarantees of Debt of the Company and (z) other unsecured funded Debt in existence at the time of substitution of the Company as Borrower (and not created in contemplation thereof) in an amount not to exceed $100,000,000;

(ii) QSC shall have unconditionally guaranteed the obligations of the Company on the same terms as set forth in Article 9 and shall have taken all actions as may be reasonably required by the Administrative Agent to preserve and protect the perfection and priority of the Facility Liens on the Collateral;

(iii) all other guarantees by any Person of Debt of the Company shall be unsecured or subordinated (with junior Liens to the extent secured);

(iv) the Company shall have provided the Administrative Agent at least 30 days prior notice of such change and the Administrative Agent shall not have notified the Borrower that it has determined that the change in Borrower would adversely affect the security or ranking of the Obligations; and

(v) no Default shall be in existence or occur as a result thereof and the Administrative Agent shall have received a signed certificate of an authorized officer of the Company to such effect,

then, upon the execution of a supplement to this Agreement by the Company and the Administrative Agent in form and substance reasonably satisfactory to the Administrative Agent whereby the Company expressly assumes the Obligations of QSC as "Borrower" under this Agreement, the Issuer Documents and the Notes and the delivery to the Administrative Agent of an opinion of outside counsel to the Company covering such customary matters in connection therewith as may be reasonably requested by the Administrative Agent, then the Company shall be substituted for QSC as the "Borrower" under this Agreement (and, in the case of clause (a), QSC shall only be liable for the Obligations pursuant to its pledge of the Collateral to secure the Obligations pursuant to the Security and Pledge Agreement and, in the case of clause (b), QSC shall only be liable for the Obligations pursuant to the documents contemplated by clause (b)(ii) above). In the case of a substitution of the Company for QSC in reliance on clause (b), from and after the date of such substitution and notwithstanding anything in Article 5 to the contrary, QSC shall not have any Debt other than Debt specified in clause (b)(i) above.

Following any substitution for the Company for QSC as the Borrower pursuant to the provisions set forth in the preceding paragraph, the Company, QSC (if applicable) and the Administrative Agent may, without the consent of any Lender, make such technical amendments to this Agreement and the other Loan Documents as shall be necessary to give effect to the intent of this Section 10.15 and as are not otherwise adverse to the Lenders in any material respect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

QWEST SERVICES CORPORATION

By: _____
Name
Title:

1801 California Street
Denver, CO 80202
Attn: Chief Financial Officer
Fax: (303) 296−4920

with a copy to

1801 California Street
Denver, CO 80202
Attn: General Counsel
Fax: (303) 296−5974

QWEST COMMUNICATIONS INTERNATIONAL INC.

By: _____
Name
Title:

1801 California Street
Denver, CO 80202
Attn: Chief Financial Officer
Fax: (303) 296−4920

with a copy to

1801 California Street
Denver, CO 80202
Attn: General Counsel
Fax: (303) 296−5974
website: www.qwest.com

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Administrative Agent and Issuing Lender

By: _____
Name
Title:

Wachovia Bank, National Association
Charlotte Plaza, CP−8
201 South College Street
Charlotte, North Carolina 28288−0680
Attention: Syndication Agency Services
Telephone No.: (704) 374−2698
Telecopy No.: (704) 383−0288

WACHOVIA BANK, NATIONAL ASSOCIATION

By: _____
Name
Title:

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By: _____
Name
Title: